

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 July 1, 2017.

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

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, 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. (Check one):

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

(Do not check if a smaller reporting company)

If an emerging growth company, indicate by checkmark 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 July 29, 2017: 88,388,128

AVERY DENNISON CORPORATION

FISCAL SECOND QUARTER 2017 QUARTERLY REPORT ON FORM 10-Q

TABLE OF CONTENTS

[SAFE HARBOR STATEMENT](#)

Page

[PART I. FINANCIAL INFORMATION \(UNAUDITED\)](#)

[Item 1.](#)

[Financial Statements](#)

[Condensed Consolidated Balance Sheets](#)

[July 1, 2017 and December 31, 2016](#)

[Condensed Consolidated Statements of Income](#)

[Three and Six Months ended July 1, 2017 and July 2, 2016](#)

2

3

	Condensed Consolidated Statements of Comprehensive Income	4
	Three and Six Months ended July 1, 2017 and July 2, 2016	
	Condensed Consolidated Statements of Cash Flows	
	Six Months ended July 1, 2017 and July 2, 2016	5
	Notes to Unaudited Condensed Consolidated Financial Statements	6
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	18
	Non-GAAP Financial Measures	
	Overview and Outlook	
	Analysis of Results of Operations for the Second Quarter	
	Results of Operations by Reportable Segment for the Second Quarter	
	Analysis of Results of Operations for the Six Months Year-to-Date	
	Results of Operations by Reportable Segment for the Six Months Year-to-Date	
	Financial Condition	
	Recent Accounting Requirements	
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	32
Item 4.	Controls and Procedures	32
 PART II. OTHER INFORMATION		
Item 1.	Legal Proceedings	33
Item 1A.	Risk Factors	33
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	33
Item 3.	Defaults Upon Senior Securities	33
Item 4.	Mine Safety Disclosures	33
Item 5.	Other Information	33
Item 6.	Exhibits	34
Signatures		35
Exhibits		

[Table of Contents](#)

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,” “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.

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 31, 2016, and subsequent quarterly reports on Form 10-Q, and include, but are not limited to, risks and uncertainties relating to the following: fluctuations in demand affecting sales to customers; worldwide and local economic conditions; changes in political conditions; changes in governmental laws and regulations; fluctuations in currency exchange rates and other risks associated with foreign operations, including in emerging markets; the financial condition and inventory strategies of customers; changes in customer preferences; fluctuations in cost and availability of raw materials; our ability to generate sustained productivity improvement; our ability to achieve and sustain targeted cost reductions; the impact of competitive products and pricing; loss of significant contracts or customers; collection of receivables from customers; selling prices; business mix shift; execution and integration of acquisitions and completion of potential dispositions; timely development and market acceptance of new products, including sustainable or sustainably-sourced products; investment in development activities and new production facilities; amounts of future dividends and share repurchases; customer and supplier concentrations; successful implementation of new manufacturing technologies and installation of manufacturing equipment; disruptions in information technology systems, including cyber-attacks or other intrusions to network security; successful installation of new or upgraded information technology systems; data security breaches; volatility of financial markets; impairment of capitalized assets, including goodwill and other intangibles; credit risks; our ability to obtain adequate financing arrangements and maintain access to capital; fluctuations in interest and tax rates; changes in tax laws and regulations, and uncertainties associated with interpretations of such laws and regulations; outcome of tax audits; fluctuations in pension, insurance, and employee benefit costs; the impact of legal and regulatory proceedings, including with respect to environmental, health and safety; protection and infringement of intellectual property; the impact of epidemiological events on the economy and our customers and suppliers; acts of war, terrorism, and natural disasters; and other factors.

We believe that the most significant risk factors that could affect our financial performance in the near-term include: (1) the impacts of global economic conditions and political uncertainty on underlying demand for our products and foreign currency fluctuations; (2) competitors’ actions, including pricing, expansion in key markets, and product offerings; (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; and (4) the execution and integration of acquisitions.

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.

ITEM 1. FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(Dollars in millions, except per share amount)	July 1, 2017	December 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	\$ 209.4	\$ 195.1
Trade accounts receivable, less allowances of \$42.1 and \$47.8 at July 1, 2017 and December 31, 2016, respectively	1,138.1	1,001.0
Inventories, net	618.5	519.1
Assets held for sale	8.3	6.8
Other current assets	235.5	182.8
Total current assets	2,209.8	1,904.8
Property, plant and equipment	2,865.5	2,661.4
Accumulated depreciation	(1,847.7)	(1,746.2)
Property, plant and equipment, net	1,017.8	915.2
Goodwill	950.4	793.6
Other intangibles resulting from business acquisitions, net	168.1	66.7
Non-current deferred income taxes	325.1	313.2
Other assets	420.6	402.9
	\$ 5,091.8	\$ 4,396.4
Liabilities and Shareholders' Equity		
Current liabilities:		
Short-term borrowings and current portion of long-term debt and capital leases	\$ 444.0	\$ 579.1
Accounts payable	930.9	841.9
Accrued payroll and employee benefits	188.8	217.4
Other current liabilities	408.7	365.9
Total current liabilities	1,972.4	2,004.3
Long-term debt and capital leases	1,276.3	713.4
Long-term retirement benefits and other liabilities	656.0	660.9
Non-current deferred and payable income taxes	117.3	92.3
Commitments and contingencies (see Note 15)		
Shareholders' equity:		
Common stock, \$1 par value per share, authorized – 400,000,000 shares at July 1, 2017 and December 31, 2016; issued – 124,126,624 shares at July 1, 2017 and December 31, 2016; outstanding – 88,390,029 shares and 88,308,860 shares at July 1, 2017 and December 31, 2016, respectively	124.1	124.1
Capital in excess of par value	845.9	852.0
Retained earnings	2,621.8	2,473.3
Treasury stock at cost, 35,736,595 shares and 35,817,764 shares at July 1, 2017 and December 31, 2016, respectively	(1,805.6)	(1,772.0)
Accumulated other comprehensive loss	(716.4)	(751.9)
Total shareholders' equity	1,069.8	925.5
	\$ 5,091.8	\$ 4,396.4

See Notes to Unaudited Condensed Consolidated Financial Statements

2

[Table of Contents](#)

Avery Dennison Corporation

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(In millions, except per share amounts)	Three Months Ended		Six Months Ended	
	July 1, 2017	July 2, 2016	July 1, 2017	July 2, 2016
Net sales	\$ 1,626.9	\$ 1,541.5	\$ 3,199.0	\$ 3,027.0
Cost of products sold	1,174.3	1,107.4	2,304.0	2,170.3
Gross profit	452.6	434.1	895.0	856.7
Marketing, general and administrative expense	276.7	269.2	560.0	547.4
Interest expense	16.2	15.4	32.9	30.7
Other expense, net	10.2	50.2	16.7	55.8
Income before taxes	149.5	99.3	285.4	222.8
Provision for income taxes	28.6	19.3	52.3	53.2
Net income	\$ 120.9	\$ 80.0	\$ 233.1	\$ 169.6

Per share amounts:

Net income per common share	\$ 1.37	\$.90	\$ 2.64	\$ 1.90
Net income per common share, assuming dilution	\$ 1.34	\$.88	\$ 2.59	\$ 1.87
Dividends per common share	\$.45	\$.41	\$.86	\$.78
Weighted average number of shares outstanding:				
Common shares	88.5	89.1	88.4	89.3
Common shares, assuming dilution	89.9	90.7	90.0	90.9

See Notes to Unaudited Condensed Consolidated Financial Statements

3

[Table of Contents](#)

Avery Dennison Corporation

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

(In millions)	Three Months Ended		Six Months Ended	
	July 1, 2017	July 2, 2016	July 1, 2017	July 2, 2016
Net income	\$ 120.9	\$ 80.0	\$ 233.1	\$ 169.6
Other comprehensive (loss) income, net of tax:				
Foreign currency translation	(8.3)	(13.3)	27.2	5.6
Pension and other postretirement benefits	4.9	(15.5)	9.6	(11.3)
Cash flow hedges	(.5)	1.2	(1.3)	(.1)
Other comprehensive (loss) income, net of tax	(3.9)	(27.6)	35.5	(5.8)
Total comprehensive income, net of tax	\$ 117.0	\$ 52.4	\$ 268.6	\$ 163.8

See Notes to Unaudited Condensed Consolidated Financial Statements

4

[Table of Contents](#)

Avery Dennison Corporation

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(In millions)	Six Months Ended	
	July 1, 2017	July 2, 2016
Operating Activities		
Net income	\$ 233.1	\$ 169.6
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	59.7	58.6
Amortization	31.1	30.8
Provision for doubtful accounts and sales returns	19.8	21.3
Net losses from asset impairments and sales/disposals of assets	.6	3.2
Stock-based compensation	13.2	14.1
Loss from settlement of pension obligations	–	41.4
Other non-cash expense and loss	28.1	24.1
Changes in assets and liabilities and other adjustments	(207.3)	(147.1)
Net cash provided by operating activities	178.3	216.0
Investing Activities		
Purchases of property, plant and equipment	(66.5)	(61.3)
Purchases of software and other deferred charges	(14.9)	(6.1)
Proceeds from sales of property, plant and equipment	.2	3.2
Purchases of investments, net	(4.1)	–
Payments for acquisitions, net of cash acquired, and investments in businesses	(300.9)	–
Net cash used in investing activities	(386.2)	(64.2)
Financing Activities		
Net (decrease) increase in borrowings (maturities of three months or less)	(159.5)	104.6
Additional long-term borrowings	526.6	–
Repayments of long-term debt	(1.5)	(1.2)
Dividends paid	(76.2)	(69.6)
Share repurchases	(70.3)	(160.1)
Proceeds from exercises of stock options, net	17.5	41.4
Tax withholding for and excess tax benefit from stock-based compensation, net	(20.0)	(8.4)

Net cash provided by (used in) financing activities	216.6	(93.3)
Effect of foreign currency translation on cash balances	5.6	(1.2)
Increase in cash and cash equivalents	14.3	57.3
Cash and cash equivalents, beginning of year	195.1	158.8
Cash and cash equivalents, end of period	\$ 209.4	\$ 216.1

See Notes to Unaudited Condensed Consolidated Financial Statements

5

[Table of Contents](#)

Avery Dennison Corporation

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1. General

The unaudited Condensed Consolidated Financial Statements and 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 notes thereto in our 2016 Annual Report on Form 10-K, which should be read in conjunction with this Quarterly Report on Form 10-Q. The accompanying unaudited Condensed Consolidated Financial Statements include normal recurring adjustments necessary for a fair statement of our interim results. Interim results of operations are not necessarily indicative of future results.

Fiscal Periods

The three and six months ended July 1, 2017 and July 2, 2016 each consisted of thirteen-week and twenty-six week periods, respectively.

Accounting Guidance Update

In the first quarter of 2017, we adopted an accounting guidance update that simplifies several aspects of the accounting for stock-based payment transactions. As a result of adopting this update, beginning in the first quarter of 2017, (i) the tax effects related to stock-based payments at settlement or expiration were recognized through the income statement, a change from the previous requirement that certain tax effects be recognized in capital in excess of par value, and, as required by this guidance, this change was applied prospectively, and (ii) all tax-related cash flows resulting from stock-based payments were reported as operating activities on the statements of cash flows, a change from the previous requirement to present excess tax benefits as an inflow from financing activities and an outflow from operating activities, and, as permitted by this guidance, prior periods were not retrospectively adjusted. Refer to Note 8, "Long-Term Incentive Compensation and Supplemental Equity Information," and Note 11, "Taxes Based on Income," for further information.

Note 2. Acquisitions

On June 23, 2017, we completed the stock acquisition of Yongle Tape Ltd. ("Yongle Tape"), a China-based manufacturer of specialty tapes and related products used in a variety of industrial markets, from Yongle Tape's management and Shaw Kwei & Partners.

On May 19, 2017, we completed the stock acquisition of Finesse Medical Limited ("Finesse Medical"), an Ireland-based manufacturer of healthcare products used in the management of wound care and skin conditions, from Finesse Medical's management.

On March 1, 2017, we completed the net asset acquisition of Hanita Coatings Rural Cooperative Association Limited and stock acquisition of certain of its subsidiaries ("Hanita"), an Israel-based pressure-sensitive manufacturer of specialty films and laminates, from Kibbutz Hanita Coatings and Tene Investment Funds.

We expect the acquisitions of Yongle Tape, Finesse Medical, and Hanita (collectively, the "2017 Acquisitions") to expand our product portfolio and provide new growth opportunities.

The aggregate purchase consideration for these acquisitions, which is subject to customary post-closing adjustments, was approximately \$320 million. This included \$15 million of payments based on Yongle Tape's achievement of certain pre-acquisition performance targets. The payments for these acquisitions were funded through cash and existing credit facilities. In addition to the cash paid at the closing of these acquisitions, certain sellers are eligible for earn-out payments of up to approximately \$45 million related to the achievement of certain performance targets for 2017 and 2018. Based on our estimates, we have accrued approximately \$20 million for these additional earn-out payments, which has been included in the \$320 million of aggregate purchase consideration.

Consistent with the allowable time to complete our assessment, the valuations of certain acquired assets and liabilities, including tangible and intangible assets, environmental liabilities and income taxes, are currently pending.

These acquisitions were not material, individually or in the aggregate, to our unaudited Condensed Consolidated Financial Statements.

6

[Table of Contents](#)

Avery Dennison Corporation

Note 3. Inventories

Net inventories consisted of:

(In millions)

	July 1, 2017	December 31, 2016
Raw materials	\$ 214.2	\$ 185.0
Work-in-progress	189.5	156.8
Finished goods	214.8	177.3
Inventories, net	\$ 618.5	\$ 519.1

Note 4. Goodwill and Other Intangibles Resulting from Business Acquisitions

Goodwill

Changes in the net carrying amount of goodwill for the six months ended July 1, 2017, by reportable segment, were as follows:

(In millions)	Label and Graphic Materials	Retail Branding and Information Solutions	Industrial and Healthcare Materials	Total
Goodwill as of December 31, 2016	\$ 373.3	\$ 353.9	\$ 66.4	\$ 793.6
2017 Acquisitions ⁽¹⁾	20.8	–	106.6	127.4
Acquisition adjustments ⁽²⁾	4.0	–	.5	4.5
Translation adjustments	21.8	1.4	1.7	24.9
Goodwill as of July 1, 2017	\$ 419.9	\$ 355.3	\$ 175.2	\$ 950.4

⁽¹⁾ Goodwill acquired related to the acquisitions of Hanita, which is included in the Label and Graphic Materials reportable segment, and Finesse Medical and Yongle Tape, which are included in the Industrial and Healthcare Materials reportable segment.

⁽²⁾ Goodwill purchase price allocation adjustments related to the acquisition of the European business of Mactac (“Mactac”) completed in August 2016.

The carrying amounts of goodwill at July 1, 2017 and December 31, 2016 were net of cumulative impairment losses of \$820 million incurred in fiscal year 2009 by our Retail Branding and Information Solutions reportable segment.

In connection with the 2017 Acquisitions, we recognized goodwill based on our expectation of synergies and other benefits from acquiring these businesses. We expect the majority of the recognized goodwill related to our acquisition of Hanita to be deductible for income tax purposes.

Finite-Lived Intangible Assets

In connection with the 2017 Acquisitions, we acquired approximately \$108 million of identifiable intangible assets, which consisted of customer relationships, trade names and trademarks, and patents and other acquired technology. We utilized the income approach to estimate the fair values of the identifiable intangibles associated with the 2017 Acquisitions, using primarily Level 3 inputs. The discount rates we used to value these assets were between 12% and 16%.

The table below summarizes the preliminary amounts and weighted useful lives of these intangible assets:

	Amount (in millions)	Weighted-average amortization period (in years)
Customer relationships	\$ 80.6	16
Patents and other acquired technology	23.6	9
Trade names and trademarks	4.2	8

Refer to Note 2, “Acquisitions,” for more information.

Note 5. Debt

In March 2017, we issued €500 million of senior notes, due March 2025. The senior notes bear an interest rate of 1.25% per year, payable annually in arrears. The net proceeds from the offering, after deducting underwriting discounts and estimated offering expenses, were \$526.6 million (€495.5 million), a portion of which was used to repay commercial paper borrowings that we used to finance a portion of our acquisition of the European business of Mactac (“Mactac”) in August 2016. During the second quarter of 2017,

7

[Table of Contents](#)

Avery Dennison Corporation

we used the remainder for general corporate purposes, including acquisitions. We designated the senior notes as a net investment hedge of our investment in foreign operations. Refer to Note 10, “Financial Instruments,” for more information.

The estimated fair value of our long-term debt is primarily based on the credit spread above U.S. Treasury 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 carrying value given the short duration of these obligations. The fair value of our total debt was \$1.73 billion at July 1, 2017 and \$1.31 billion at December 31, 2016. Fair value amounts 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 \$700 million revolving credit facility (the “Revolver”) contains financial covenants requiring that we maintain specified ratios of total debt and interest expense in relation to certain measures of income. As of July 1, 2017 and December 31, 2016, we were in compliance with our financial covenants.

Note 6. 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 the course of his or her employment with us.

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 have not incurred significant costs related to these benefits, and, therefore, no related costs are included in the disclosures below.

The following table sets forth the components of net periodic benefit cost (credit), which are recorded in income, for our defined benefit plans:

(In millions)	Pension Benefits							
	Three Months Ended				Six Months Ended			
	July 1, 2017		July 2, 2016		July 1, 2017		July 2, 2016	
	U.S.	Int'l	U.S.	Int'l	U.S.	Int'l	U.S.	Int'l
Service cost	\$.1	\$ 4.5	\$.1	\$ 3.5	\$.2	\$ 8.8	\$.2	\$ 6.9
Interest cost	9.7	3.5	8.5	4.2	18.1	6.9	18.3	8.3
Actuarial loss	.9	–	1.7	–	.9	–	1.7	–
Expected return on plan assets	(10.2)	(5.2)	(10.5)	(5.4)	(20.3)	(10.2)	(21.9)	(10.7)
Recognized net actuarial loss	4.8	2.6	4.8	1.8	9.4	5.2	9.2	3.6
Amortization of prior service cost (credit)	.2	(.1)	.3	(.1)	.4	(.2)	.6	(.2)
Recognized loss on settlements ⁽¹⁾	–	–	41.4	–	–	–	41.4	–
Net periodic benefit cost	\$ 5.5	\$ 5.3	\$ 46.3	\$ 4.0	\$ 8.7	\$ 10.5	\$ 49.5	\$ 7.9

⁽¹⁾In the second quarter of 2016, we recognized loss on settlements related to the Avery Dennison Pension Plan, our U.S. pension plan, as a result of lump-sum pension payments to eligible former employees who were vested participants in the plan. The loss on settlements was recorded in "Other expense, net" in the unaudited Condensed Consolidated Statements of Income.

(In millions)	U.S. Postretirement Health Benefits			
	Three Months Ended		Six Months Ended	
	July 1, 2017	July 2, 2016	July 1, 2017	July 2, 2016
Interest cost	\$.1	\$ –	\$.1	\$.1
Recognized net actuarial loss	.3	.3	.7	.8
Amortization of prior service credit	(.8)	(.8)	(1.6)	(1.6)
Net periodic benefit credit	\$ (.4)	\$ (.5)	\$ (.8)	\$ (.7)

8

[Table of Contents](#)

Avery Dennison Corporation

Note 7. Research and Development

Research and development expense was \$23.5 million and \$46.4 million for the three and six months ended July 1, 2017, respectively, and \$22.7 million and \$45 million for the three and six months ended July 2, 2016, respectively. This expense was included in "Marketing, general and administrative expense" in the unaudited Condensed Consolidated Statements of Income.

Note 8. Long-Term Incentive Compensation and Supplemental Equity Information

As discussed in Note 1, "General," we adopted an accounting guidance update in the first quarter of 2017 that, among other things, provided an accounting policy election to account for forfeitures of stock-based awards as they occur, rather than based on an estimate of expected forfeitures. We elected to continue our current practice of estimating forfeitures in determining the compensation cost to be recognized each period.

In April 2017, our shareholders approved our 2017 Incentive Award Plan (the "2017 Plan") to replace our existing Amended and Restated Stock Option and Incentive Plan. The 2017 Plan, a long-term incentive plan for eligible employees and non-employee directors, allows us to grant stock-based compensation awards – including stock options, restricted stock units, performance units, and market-leveraged stock units – or a combination of these and other awards. Under the 2017 Plan, the aggregate number of shares available for issuance is 5.4 million shares and each full value award will be counted as 1.5 shares for purposes of the number of shares authorized for issuance. Full value awards include restricted stock units, performance units, and market-leveraged stock units.

Stock-Based Awards

Stock-based compensation expense was \$7.6 million and \$13.2 million for the three and six months ended July 1, 2017, respectively, and \$6.6 million and \$14.1 million for the three and six months ended July 2, 2016, respectively. This expense was included in "Marketing, general and administrative expense" in the unaudited Condensed Consolidated Statements of Income.

As of July 1, 2017, we had approximately \$50 million of unrecognized compensation expense related to unvested stock-based awards, which is expected to be recognized over the remaining weighted-average requisite service period of approximately two years.

Cash-Based Awards

The compensation expense related to long-term incentive units was \$6.5 million and \$16.8 million for the three and six months ended July 1, 2017, respectively, and \$5.2 million and \$14.7 million for the three and six months ended July 2, 2016, respectively. This expense was included in "Marketing, general and administrative expense" in the unaudited Condensed Consolidated Statements of Income.

Share Repurchase Program

In April 2017, our Board of Directors ("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 and in addition to the amount outstanding under our previous Board

authorization. Our Board repurchase authorizations remain in effect until shares in the respective amount authorized thereunder have been repurchased.

Note 9. Cost Reduction Actions

2015/2016 Actions

During the six months ended July 1, 2017, we recorded \$13.6 million in restructuring charges, net of reversals, related to restructuring actions initiated during the third quarter of 2015 ("2015/2016 Actions"). These charges consisted of severance and related costs for the reduction of approximately 380 positions, lease cancellation costs, and asset impairment charges.

Accruals for severance and related costs and 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, net" in the unaudited Condensed Consolidated Statements of Income.

9

[Table of Contents](#)

Avery Dennison Corporation

During the six months ended July 1, 2017, restructuring charges and payments were as follows:

(In millions)	Accrual at December 31, 2016	Charges (Reversals), net	Cash Payments	Non-cash Impairment	Foreign Currency Translation	Accrual at July 1, 2017
2015/2016 Actions						
Severance and related costs	\$ 3.3	\$ 13.3	\$ (14.8)	\$ –	\$ –	\$ 1.8
Lease cancellation costs	.2	.2	(.3)	–	–	.1
Asset impairment charges	–	.1	–	(.1)	–	–
Prior actions						
Severance and related costs	1.3	(.3)	(.1)	–	–	.9
Total	\$ 4.8	\$ 13.3	\$ (15.2)	\$ (.1)	\$ –	\$ 2.8

The table below shows the total amount of restructuring charges incurred by reportable segment and Corporate:

(In millions)	Three Months Ended		Six Months Ended	
	July 1, 2017	July 2, 2016	July 1, 2017	July 2, 2016
Restructuring charges by reportable segment and Corporate				
Label and Graphic Materials	\$ 4.8	\$ 4.5	\$ 6.8	\$ 6.6
Retail Branding and Information Solutions	2.8	1.7	6.3	4.9
Industrial and Healthcare Materials	–	.2	.2	.5
Corporate	–	–	–	–
Total	\$ 7.6	\$ 6.4	\$ 13.3	\$ 12.0

Note 10. Financial Instruments

We enter into foreign exchange hedge contracts to reduce our risk from 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 enter into interest rate contracts to help manage our exposure to certain interest rate fluctuations. We also enter into futures contracts to hedge certain price fluctuations for a portion of our anticipated domestic purchases of natural gas. The maximum length of time for which we hedge our exposure to the variability in future cash flows for forecasted transactions is 36 months.

As of July 1, 2017, the aggregate U.S. dollar equivalent notional value of our outstanding commodity contracts and foreign exchange contracts was \$4.9 million and \$2.13 billion, respectively.

We recognize derivative instruments as either assets or liabilities at fair value in the unaudited Condensed Consolidated Balance Sheets. We designate commodity forward contracts on forecasted purchases of commodities and foreign exchange contracts on forecasted transactions as cash flow hedges and designate foreign exchange contracts on existing balance sheet items as fair value hedges.

The following table shows the fair value and balance sheet locations of derivatives as of July 1, 2017:

(In millions)	Asset		Liability	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Foreign exchange contracts	Other current assets	\$ 5.1	Other current liabilities	\$ 10.1
Commodity contracts	Other current assets	.1	Other current liabilities	–
		\$ 5.2		\$ 10.1

10

[Table of Contents](#)

Avery Dennison Corporation

The following table shows the fair value and balance sheet locations of derivatives as of December 31, 2016:

(In millions)	Asset		Liability	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Foreign exchange contracts	Other current assets	\$ 4.6	Other current liabilities	\$ 7.8
Commodity contracts	Other current assets	.5	Other current liabilities	–
Commodity contracts	Other assets	.1		
		\$ 5.2		\$ 7.8

Fair Value Hedges

The following table shows the components of net gains (losses), before taxes, recognized in income related to fair value hedge contracts. The corresponding gains or losses on the underlying hedged items approximated the net gains (losses) on these fair value hedge contracts.

(In millions)	Location of Net Gains (Losses) in Income	Three Months Ended		Six Months Ended	
		July 1, 2017	July 2, 2016	July 1, 2017	July 2, 2016
Foreign exchange contracts	Cost of products sold	\$ –	\$.7	\$ (1.0)	\$ 1.7
Foreign exchange contracts	Marketing, general and administrative expense	(23.9)	6.9	(22.7)	2.4
		\$ (23.9)	\$ 7.6	\$ (23.7)	\$ 4.1

For derivative instruments that are designated and qualify as fair value hedges, the gain or loss on the derivative and the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in current earnings, resulting in no material net impact to income.

Cash Flow Hedges

Gains (losses), before taxes, recognized in “Accumulated other comprehensive loss” (effective portion) on derivatives related to cash flow hedge contracts were as follows:

(In millions)	Three Months Ended		Six Months Ended	
	July 1, 2017	July 2, 2016	July 1, 2017	July 2, 2016
Foreign exchange contracts	\$ (.4)	\$ (.3)	\$ (3.5)	\$ (1.8)
Commodity contracts	(.2)	.5	(.4)	.3
	\$ (.6)	\$.2	\$ (3.9)	\$ (1.5)

For derivative instruments that are designated and qualify as cash flow hedges, the effective portion of the gain or loss on the derivative is reported as a component of “Accumulated other comprehensive loss” and reclassified into earnings in the same period(s) during which the hedged transaction impacts earnings. Gains and losses on the derivative, representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness, are recognized in current earnings.

The amount recognized in income related to the ineffective portion of, and the amount excluded from, effectiveness testing for cash flow hedges and derivatives not designated as hedging instruments was not material for the three and six months ended July 1, 2017 and July 2, 2016, respectively.

As of July 1, 2017, we expected a net loss of approximately \$.3 million to be reclassified from “Accumulated other comprehensive loss” to earnings within the next 12 months.

Net Investment Hedge

In March 2017, we designated our €500 million of euro-denominated 1.25% senior notes due 2025 as a net investment hedge of our investment in foreign operations. The net assets from the investment in foreign operations were greater than the senior notes, and as such, the net investment hedge was effective. Refer to Note 5, “Debt,” for further information about our euro-denominated debt.

11

[Table of Contents](#)

Avery Dennison Corporation

Gain (loss), before tax, recognized in “Accumulated other comprehensive loss” (effective portion) related to the net investment hedge was as follows:

(In millions)	Three Months Ended		Six Months Ended	
	July 1, 2017	July 2, 2016	July 1, 2017	July 2, 2016
Foreign currency denominated debt	\$ (26.3)	\$ n/a	\$ (37.7)	\$ n/a

We recorded no ineffectiveness from our net investment hedge in earnings during the three or six months ended July 1, 2017.

Note 11. Taxes Based on Income

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

(Dollars in millions)	Three Months Ended		Six Months Ended	
	July 1, 2017	July 2, 2016	July 1, 2017	July 2, 2016
Income before taxes	\$ 149.5	\$ 99.3	\$ 285.4	\$ 222.8
Provision for income taxes	28.6	19.3	52.3	53.2
Effective tax rate	19.1%	19.4%	18.3%	23.9%

The effective tax rate for the three and six months ended July 1, 2017 included \$3.4 million of tax benefit from effective settlements of certain foreign tax examinations and changes in our judgment about tax filing positions in certain foreign jurisdictions as a result of new information gained from our interactions with tax authorities, as well as \$3.1 million and \$4.6 million, respectively, of tax benefit due to decreases in certain tax reserves, including interest and penalties, as a result of closing tax years. The effective tax rate for the three and six months ended July 1, 2017 also included a net benefit of \$.6 million and \$13.3 million, respectively, related to our adoption of the accounting guidance update related to stock-based payments described in Note 1, "General."

The accounting guidance update related to stock-based payments requires that the effect of excess tax benefits associated with stock-based payments be recognized in the income statement instead of in capital in excess of par value as was the case prior to our adoption of this guidance. Excess tax benefits are the effects of tax deductions in excess of compensation expenses recognized for financial accounting purposes. These benefits related to stock-based awards are generally generated as a result of stock price appreciation during the vesting period or between the time of grant and the time of exercise. We expect future excess tax benefits pursuant to this guidance to vary depending on the stock-based payments in future reporting periods. These excess tax benefits may cause variability in our future effective tax rate as they can fluctuate based on vesting and exercise activity, as well as our future stock price. The tax effect of the tax deductions in excess of compensation cost related to the exercise of nonqualified stock options and vesting of other stock-based compensation awards recognized in capital in excess of par value was \$.2 million and \$7.1 million for the three and six months ended July 2, 2016, respectively.

In addition, the effective tax rate for the six months ended July 1, 2017 compared to the same period last year reflects a decrease in tax expense related to repatriation of non-permanently reinvested earnings of certain foreign subsidiaries and favorable changes in the geographic mix of our income before taxes.

The effective tax rate for the three and six months ended July 2, 2016 included \$6.7 million of tax benefit from the release of valuation allowances against certain deferred tax assets in a foreign jurisdiction associated with a structural simplification approved by the tax authority; \$5 million and \$6 million of tax benefit, respectively, from changes in our judgment about tax filing positions in certain foreign jurisdictions as a result of new information gained from our interactions with tax authorities; and \$.7 million and \$3.3 million of tax benefit, respectively, due to decreases in certain tax reserves as a result of closing tax years.

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. With some exceptions, we and our subsidiaries are no longer subject to income tax examinations by tax authorities for years prior to 2006.

It is reasonably possible that, during the next 12 months, we may realize a decrease in our uncertain tax positions, including interest and penalties, of approximately \$23 million, primarily as a result of audit settlements and closing tax years.

[Table of Contents](#)

Avery Dennison Corporation

Note 12. Net Income Per Common Share

Net income per common share was computed as follows:

	Three Months Ended		Six Months Ended	
	July 1, 2017	July 2, 2016	July 1, 2017	July 2, 2016
(In millions, except per share amounts)				
(A) Net income available to common shareholders	\$ 120.9	\$ 80.0	\$ 233.1	\$ 169.6
(B) Weighted average number of common shares outstanding	88.5	89.1	88.4	89.3
Dilutive shares (additional common shares issuable under stock-based awards) ⁽¹⁾	1.4	1.6	1.6	1.6
(C) Weighted average number of common shares outstanding, assuming dilution	89.9	90.7	90.0	90.9
Net income per common share (A) ÷ (B)	\$ 1.37	\$.90	\$ 2.64	\$ 1.90
Net income per common share, assuming dilution (A) ÷ (C)	\$ 1.34	\$.88	\$ 2.59	\$ 1.87

⁽¹⁾In 2017, the dilutive shares calculation reflects the impact of our adoption of the accounting guidance update described in Note 1, "General."

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 totaled approximately .1 million shares for both the three and six months ended July 1, 2017, and approximately .1 million shares and .2 million shares for the three and six months ended July 2, 2016, respectively.

Note 13. Comprehensive Income

The changes in "Accumulated other comprehensive loss" (net of tax) for the six-month period ended July 1, 2017 were as follows:

	Foreign Currency Translation	Pension and Other Postretirement Benefits	Cash Flow Hedges	Total
(In millions)				
Balance as of December 31, 2016	\$ (212.6)	\$ (540.3)	\$ 1.0	\$ (751.9)
Other comprehensive income (loss) before reclassifications, net of tax	27.2	–	(3.0)	24.2
Reclassifications to net income, net of tax	–	9.6	1.7	11.3
Net current-period other comprehensive income (loss), net of tax	27.2	9.6	(1.3)	35.5

Balance as of July 1, 2017	\$	(185.4)	\$	(530.7)	\$	(.3)	\$	(716.4)
----------------------------	----	---------	----	---------	----	------	----	---------

The changes in "Accumulated other comprehensive loss" (net of tax) for the six-month period ended July 2, 2016 were as follows:

(In millions)	Foreign Currency Translation	Pension and Other Postretirement Benefits	Cash Flow Hedges	Total
Balance as of January 2, 2016	\$ (158.9)	\$ (521.6)	\$ (2.5)	\$ (683.0)
Other comprehensive income (loss) before reclassifications, net of tax	5.6	(46.7)	(1.2)	(42.3)
Reclassifications to net income, net of tax	–	35.4	1.1	36.5
Net current-period other comprehensive income (loss), net of tax	5.6	(11.3)	(.1)	(5.8)
Balance as of July 2, 2016	\$ (153.3)	\$ (532.9)	\$ (2.6)	\$ (688.8)

13

[Table of Contents](#)

Avery Dennison Corporation

The amounts reclassified from "Accumulated other comprehensive loss" to increase (decrease) net income were as follows:

(In millions)	Amounts Reclassified from Accumulated Other Comprehensive Loss				Affected Line Item in the Statements Where Net Income is Presented
	Three Months Ended		Six Months Ended		
	July 1, 2017	July 2, 2016	July 1, 2017	July 2, 2016	
Cash flow hedges:					
Foreign exchange contracts	\$ –	\$ (1.2)	\$ (.9)	\$ (.9)	Cost of products sold
Commodity contracts	.1	(.3)	.2	(.6)	Cost of products sold
Interest rate contracts	–	–	(1.8)	–	Interest expense
	.1	(1.5)	(2.5)	(1.5)	Total before tax
	–	.4	.8	.4	Provision for income taxes
	.1	(1.1)	(1.7)	(1.1)	Net of tax
Pension and other postretirement benefits⁽¹⁾					
	(7.0)	(47.7)	(13.9)	(53.8)	
	2.1	16.5	4.3	18.4	Provision for income taxes
	(4.9)	(31.2)	(9.6)	(35.4)	Net of tax
Total reclassifications for the period	\$ (4.8)	\$ (32.3)	\$ (11.3)	\$ (36.5)	Total, net of tax

⁽¹⁾See Note 6, "Pension and Other Postretirement Benefits," for more information.

Note 14. Fair Value Measurements

Recurring Fair Value Measurements

The following table shows the assets and liabilities carried at fair value, measured on a recurring basis, as of July 1, 2017:

(In millions)	Total	Fair Value Measurements Using		
		Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
Assets				
Trading securities	\$ 22.5	\$ 15.3	\$ 7.2	\$ –
Derivative assets	5.2	.1	5.1	–
Bank drafts	16.3	16.3	–	–
Liabilities				
Derivative liabilities	\$ 10.1	\$ –	\$ 10.1	\$ –

The following table shows the assets and liabilities carried at fair value, measured on a recurring basis, as of December 31, 2016:

(In millions)	Total	Fair Value Measurements Using		
		Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
Assets				
Trading securities	\$ 18.1	\$ 11.7	\$ 6.4	\$ –
Derivative assets	5.2	.6	4.6	–
Bank drafts	14.3	14.3	–	–
Liabilities				
Derivative liabilities	\$ 7.8	\$ –	\$ 7.8	\$ –

[Table of Contents](#)

Avery Dennison Corporation

Trading securities 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 July 1, 2017, trading securities of \$.8 million and \$21.7 million were included in “Cash and cash equivalents” and “Other current assets,” respectively, in the unaudited Condensed Consolidated Balance Sheets. As of December 31, 2016, trading securities of \$.5 million and \$17.6 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 are included in “Other current assets” in the unaudited Condensed Consolidated Balance Sheets.

Note 15. 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 these liabilities.

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, 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. However, environmental expenditures for newly acquired assets and those which 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. We review our estimates of costs of compliance 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”). 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. Potential insurance reimbursements are not offset against these liabilities.

As of July 1, 2017, we have been designated by the U.S. Environmental Protection Agency (“EPA”) and/or other responsible state agencies as a PRP at thirteen 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, 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.

15

[Table of Contents](#)

Avery Dennison Corporation

The activity for the six months ended July 1, 2017 related to our environmental liabilities was as follows:

(In millions)	
Balance at December 31, 2016	\$ 21.3
Acquisitions	3.0
Charges (reversals), net	2.6
Payments	(3.5)
Balance at July 1, 2017	\$ 23.4

Approximately \$9 million and \$8 million of the balance was classified as short-term and included in “Other current liabilities” in the unaudited Condensed Consolidated Balance Sheets as of July 1, 2017 and December 31, 2016, respectively.

Note 16. Segment Information

Financial information by reportable segment is set forth below:

(In millions)	Three Months Ended		Six Months Ended	
	July 1, 2017	July 2, 2016	July 1, 2017	July 2, 2016
Net sales to unaffiliated customers				
Label and Graphic Materials	\$ 1,123.1	\$ 1,064.6	\$ 2,212.7	\$ 2,077.2
Retail Branding and Information Solutions	375.1	358.5	741.9	718.0
Industrial and Healthcare Materials	128.7	118.4	244.4	231.8
Net sales to unaffiliated customers	\$ 1,626.9	\$ 1,541.5	\$ 3,199.0	\$ 3,027.0
Intersegment sales				
Label and Graphic Materials	\$ 16.5	\$ 15.9	\$ 31.7	\$ 32.7
Retail Branding and Information Solutions	.7	.8	1.6	1.7
Industrial and Healthcare Materials	1.6	1.9	3.2	4.4
Intersegment sales	\$ 18.8	\$ 18.6	\$ 36.5	\$ 38.8
Income before taxes				
Label and Graphic Materials	\$ 148.0	\$ 138.3	\$ 283.8	\$ 264.9
Retail Branding and Information Solutions	28.2	23.1	54.8	44.6
Industrial and Healthcare Materials	11.0	16.9	23.8	32.5
Corporate expense	(21.5)	(63.6)	(44.1)	(88.5)
Interest expense	(16.2)	(15.4)	(32.9)	(30.7)
Income before taxes	\$ 149.5	\$ 99.3	\$ 285.4	\$ 222.8
Other expense, net by reportable segment				
Label and Graphic Materials	\$ 5.0	\$ 6.2	\$ 7.2	\$ 8.3
Retail Branding and Information Solutions	2.8	2.4	6.6	5.6
Industrial and Healthcare Materials	2.4	.2	2.9	.5
Corporate	–	41.4	–	41.4
Other expense, net	\$ 10.2	\$ 50.2	\$ 16.7	\$ 55.8
Other expense, net by type				
Restructuring charges:				
Severance and related costs	\$ 7.3	\$ 3.6	\$ 13.0	\$ 8.8
Asset impairment charges and lease cancellation costs	.3	2.8	.3	3.2
Other items:				
Transaction costs	2.6	2.1	3.4	2.1
Loss from settlement of pension obligations	–	41.4	–	41.4
Loss on sale of asset	–	.3	–	.3
Other expense, net	\$ 10.2	\$ 50.2	\$ 16.7	\$ 55.8

16

[Table of Contents](#)

Avery Dennison Corporation

Note 17. Recent Accounting Requirements

In May 2017, the Financial Accounting Standards Board (“FASB”) issued amended guidance that provides clarity on which changes to share-based awards are considered substantive and require modification accounting to be applied. This guidance will be effective for interim and annual periods beginning after December 15, 2017. We do not regularly modify the terms and conditions of share-based awards and do not believe adoption of this amended guidance will have a significant effect on our financial position, results of operations, cash flows, and disclosures.

In March 2017, the FASB issued guidance that requires employers to present only the service cost component of net periodic benefit cost in the same income statement line item(s) as other employee compensation costs arising from services rendered during the period. Employers are required to present the other components of the net periodic benefit cost separately from the line item(s) that includes the service cost and outside of any subtotal of operating income. Components other than the service cost component will not be eligible for capitalization in assets. Employers are required to apply the guidance on the presentation of the components of net periodic benefit cost in the income statement retrospectively, while the guidance that limits the capitalization of net periodic benefit cost in assets to the service cost component must be applied prospectively. This guidance will be effective for interim and annual periods beginning after December 15, 2017. Early adoption is permitted. We are currently assessing the impact of this guidance on our financial position, results of operations, cash flows, and disclosures.

In February 2017, the FASB issued amended guidance on how entities account for the derecognition of a nonfinancial asset. It requires entities to apply certain recognition and measurement principles consistent with revenue recognition guidance when they derecognize nonfinancial assets and the counterparty is not a customer. This guidance will be effective for interim and annual periods beginning after December 15, 2017. Early adoption is permitted. We are currently assessing the impact of this guidance on our financial position, results of operations, cash flows, and disclosures.

In January 2017, the FASB issued amended guidance that simplifies the subsequent measurement of goodwill. This amended guidance eliminates step two of the goodwill impairment test, and a goodwill impairment will be the amount by which a reporting unit’s carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. This guidance will be effective for fiscal years and interim periods beginning after December 15, 2019 and early adoption is permitted. While we currently anticipate adopting this guidance in the second half of 2017, we do not anticipate that its adoption will have a significant impact on our financial position, results of operations, cash flows, or disclosures.

In March 2016, the FASB issued guidance on accounting for leases that requires lessees to recognize the rights and obligations created by leases on their balance sheets. This guidance also requires enhanced disclosures regarding the amount, timing, and uncertainty of cash flows arising from leases and will be effective for interim and annual periods beginning after December 15, 2018. Early adoption is permitted. We expect to adopt this guidance as of the effective date. A modified retrospective approach is required for adoption with respect to all leases that exist at or commence after the date of initial application with an

option to use certain practical expedients. While we are currently assessing the impact of this guidance on our financial position, results of operations, cash flows, and disclosures, we currently expect adoption of this guidance to have a significant impact on our financial position and disclosures.

In May 2014, and in subsequent updates, the FASB issued revised guidance on revenue recognition. This revised guidance provides a single comprehensive model for accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. This revised guidance requires an entity to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This revised guidance creates a five-step model that requires entities to exercise judgment when considering the terms of contract(s), which includes (i) identifying the contract(s) with the customer, (ii) identifying the separate performance obligations in the contract, (iii) determining the transaction price, (iv) allocating the transaction price to the separate performance obligations, and (v) recognizing revenue when each performance obligation is satisfied. This revised guidance also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including qualitative and quantitative information about contracts with customers, significant judgments and changes in judgments, and assets recognized from costs incurred to obtain or fulfill a contract. This revised guidance is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years, and can be applied retrospectively either to each prior reporting period presented (“full retrospective”) or with the cumulative effect of adoption recognized at the date of initial application (“modified retrospective”). Early adoption is permitted for fiscal periods beginning after December 15, 2016. We expect to adopt the new standard under the modified retrospective approach in the first quarter of 2018. Based on the information we have evaluated to date, we do not anticipate that the adoption of this revised guidance will have a significant impact on our financial position, results of operations, or cash flows.

[Table of Contents](#)

Avery Dennison Corporation

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, should be read in conjunction with the accompanying unaudited Condensed Consolidated Financial Statements and notes thereto, and includes the following sections:

Non-GAAP Financial Measures	18
Overview and Outlook	19
Analysis of Results of Operations for the Second Quarter	20
Results of Operations by Reportable Segment for the Second Quarter	22
Analysis of Results of Operations for the Six Months Year-to-Date	24
Results of Operations by Reportable Segment for the Six Months Year-to-Date	25
Financial Condition	27
Recent Accounting Requirements	31

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

We use the following non-GAAP financial measures in this MD&A:

- *Sales change ex. currency* refers to the increase or decrease in sales excluding the estimated impact of foreign currency translation. 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 foreign currency fluctuations.
- *Organic sales change* refers to the increase or decrease in sales excluding the estimated impact of foreign currency translation, product line exits, acquisitions and divestitures, and, where applicable, an extra week in our fiscal year.

We believe that sales change ex. currency and organic sales change assist investors in evaluating the sales growth from the ongoing activities of our businesses and better enable them to evaluate our results from period to period.

- *Free cash flow* refers to cash flow from operations, less payments for property, plant and equipment, software and other deferred charges, plus proceeds from sales of property, plant and equipment, plus (minus) net proceeds from sales (purchases) of investments. We believe that free cash flow assists investors by indicating the amount of cash we have available for debt reductions, dividends, share repurchases, and acquisitions.
- *Operational working capital* 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. We believe that operational working capital 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 that may increase the volatility of working capital as a percentage of sales

[Table of Contents](#)

Avery Dennison Corporation

OVERVIEW AND OUTLOOK**Net Sales**

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

	Three Months Ended July 1, 2017	Six Months Ended July 1, 2017
Reported sales change	6%	6%
Foreign currency translation	1	1
Sales change ex. currency	7%	7%
Acquisitions/divestitures	(4)	(3)
Organic sales change ⁽¹⁾	3%	3%

⁽¹⁾Total may not sum due to rounding

In the three and six months ended July 1, 2017, net sales increased on an organic basis due to higher volume.

Net Income

Net income increased approximately \$64 million in the first six months of 2017 compared to the same period last year. Major factors affecting net income in the first six months of 2017 included:

Positive factors:

- Higher volume
- Prior year loss from settlement of pension obligations
- Benefits from productivity initiatives, including savings from restructuring actions, net of transition costs

Offsetting factors:

- Negative mix
- Higher employee-related costs
- Foreign currency translation

Acquisitions

During the first six months of 2017, we completed three acquisitions (collectively, the “2017 Acquisitions”), none of which were material, individually or in the aggregate, to our unaudited Condensed Consolidated Financial Statements. Refer to Note 2, “Acquisitions,” to the unaudited Condensed Consolidated Financial Statements for more information.

Cost Reduction Actions*2015/2016 Actions*

During the six months ended July 1, 2017, we recorded \$13.6 million in restructuring charges, net of reversals, related to restructuring actions initiated during the third quarter of 2015 (“2015/2016 Actions”). These charges consisted of severance and related costs for the reduction of approximately 380 positions, lease cancellation costs, and asset impairment charges.

Impact of Cost Reduction Actions

We anticipate incremental savings, net of transition costs, from our 2015/2016 actions of approximately \$45 million to \$50 million in 2017. We estimate cash restructuring costs of approximately \$35 million in 2017.

Restructuring charges were included in “Other expense, net” in the unaudited Condensed Consolidated Statements of Income. Refer to Note 9, “Cost Reduction Actions,” to the unaudited Condensed Consolidated Financial Statements for more information.

Accounting Guidance Update

In the first quarter of 2017, we adopted an accounting guidance update that simplifies several aspects of the accounting for stock-based payment transactions. Refer to Note 1, “General,” to the unaudited Condensed Consolidated Financial Statements for more information.

Free Cash Flow

(In millions)	Six Months Ended	
	July 1, 2017	July 2, 2016
Net cash provided by operating activities	\$ 178.3	\$ 216.0
Purchases of property, plant and equipment	(66.5)	(61.3)
Purchases of software and other deferred charges	(14.9)	(6.1)
Proceeds from sales of property, plant and equipment	.2	3.2
Purchases of investments, net	(4.1)	—
Free cash flow	\$ 93.0	\$ 151.8

Free cash flow in the first six months of 2017 decreased compared to the same period last year primarily due to operational working capital improvements in the prior year, the benefit of which did not repeat in the current year, higher income tax payments, net of refunds, as well as higher capital and software expenditures and purchases of investments, net. These were partially offset by higher net income. Free cash flow in the first six months of 2017 also reflected the impact of our adoption of the accounting guidance described in “Accounting Guidance Update.”

Outlook

Certain factors that we believe may contribute to results for 2017 are described below:

- We expect our net sales to increase by 7% to 8%.
- Assuming the continuation of foreign currency rates in effect during July 2017, we would expect foreign currency translation to reduce our pre-tax operating income by approximately \$4 million.
- We expect our full year effective tax rate to be approximately 28%.
- We anticipate our capital and software expenditures to be approximately \$215 million.
- We estimate pre-tax cash restructuring and certain acquisition-related transaction costs to total approximately \$40 million.

ANALYSIS OF RESULTS OF OPERATIONS FOR THE SECOND QUARTER

Income before Taxes

(Dollars in millions)	Three Months Ended	
	July 1, 2017	July 2, 2016
Net sales	\$ 1,626.9	\$ 1,541.5
Cost of products sold	1,174.3	1,107.4
Gross profit	452.6	434.1
Marketing, general and administrative expense	276.7	269.2
Interest expense	16.2	15.4
Other expense, net	10.2	50.2
Income before taxes	\$ 149.5	\$ 99.3
Gross profit margin	27.8%	28.2%

Gross Profit Margin

Gross profit margin for the second quarter of 2017 decreased compared to the same period last year due to margin decline in the Industrial and Healthcare Materials reportable segment, driven by a program loss in personal care tapes and higher raw material input costs.

Marketing, General and Administrative Expense

Marketing, general and administrative expense increased in the second quarter of 2017 compared to the same period last year reflecting the impact of acquisitions and higher employee-related costs, partially offset by benefits from productivity initiatives, including savings from restructuring, net of transition costs.

20

[Table of Contents](#)

Avery Dennison Corporation

Other Expense, net

(In millions)	Three Months Ended	
	July 1, 2017	July 2, 2016
Other expense, net by type		
Restructuring charges:		
Severance and related costs	\$ 7.3	\$ 3.6
Asset impairment charges and lease cancellation costs	.3	2.8
Other items:		
Transaction costs	2.6	2.1
Loss from settlement of pension obligations	—	41.4
Loss on sale of asset	—	.3
Other expense, net	\$ 10.2	\$ 50.2

Refer to Note 9, “Cost Reduction Actions,” to the unaudited Condensed Consolidated Financial Statements for more information regarding charges associated with restructuring.

Refer to Note 6, “Pension and Other Postretirement Benefits,” to the unaudited Condensed Consolidated Financial Statements for more information regarding loss from settlement of pension obligations.

Net Income and Earnings per Share

(Dollars in millions, except per share amounts)	Three Months Ended	
	July 1, 2017	July 2, 2016
Income before taxes	\$ 149.5	\$ 99.3
Provision for income taxes	28.6	19.3
Net income	\$ 120.9	\$ 80.0
Net income per common share	\$ 1.37	\$.90
Net income per common share, assuming dilution	1.34	.88
Effective tax rate	19.1%	19.4%

Provision for Income Taxes

The effective tax rate for the three months ended July 1, 2017 included \$3.4 million of tax benefit from effective settlements of certain foreign tax examinations and changes in our judgment about tax filing positions in certain foreign jurisdictions as a result of new information gained from our interactions with tax authorities, as well as \$3.1 million of tax benefit due to decreases in certain tax reserves, including interest and penalties, as a result of closing tax years.

The effective tax rate for the three months ended July 2, 2016 included \$6.7 million of tax benefit from the release of valuation allowances against certain deferred tax assets in a foreign jurisdiction associated with a structural simplification approved by the tax authority; \$5 million of tax benefit from changes in our judgment about tax filing positions in certain foreign jurisdictions as a result of new information gained from our interactions with tax authorities; and \$.7 million of tax benefits due to decreases in certain tax reserves as a result of closing tax years.

Our effective tax rate can vary widely from quarter to quarter due to interim reporting requirements, the recognition of discrete events, and the timing of repatriation of foreign earnings. Refer to Note 11, “Taxes Based on Income,” to the unaudited Condensed Consolidated Financial Statements for further information.

21

[Table of Contents](#)

Avery Dennison Corporation

RESULTS OF OPERATIONS BY REPORTABLE SEGMENT FOR THE SECOND QUARTER

Operating income refers to income before interest and taxes.

Label and Graphic Materials

(In millions)	Three Months Ended	
	July 1, 2017	July 2, 2016
Net sales including intersegment sales	\$ 1,139.6	\$ 1,080.5
Less intersegment sales	(16.5)	(15.9)
Net sales	\$ 1,123.1	\$ 1,064.6
Operating income ⁽¹⁾	148.0	138.3
⁽¹⁾ Included costs associated with restructuring and transaction costs in both quarters.	\$ 5.0	\$ 6.2

Net Sales

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

	Three Months Ended July 1, 2017
Reported sales change	6%
Foreign currency translation	1
Sales change ex. currency	7%
Acquisitions	(4)
Organic sales change ⁽¹⁾	2%

⁽¹⁾Total may not sum due to rounding

In the second quarter of 2017, net sales increased on an organic basis due to higher volume. Sales increased on an organic basis at low-single digit rates in North America, Western Europe, and emerging markets.

Operating Income

Operating income increased in the second quarter of 2017 compared to the same period last year 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 pricing and raw material costs, and higher employee-related costs.

(In millions)	Three Months Ended	
	July 1, 2017	July 2, 2016
Net sales including intersegment sales	\$ 375.8	\$ 359.3
Less intersegment sales	(.7)	(.8)
Net sales	\$ 375.1	\$ 358.5
Operating income ⁽¹⁾	28.2	23.1
⁽¹⁾ Included costs associated with restructuring in both quarters, and, in 2016, loss on sale of an asset and transaction costs related to sale of product line.	\$ 2.8	\$ 2.4

22

[Table of Contents](#)

Avery Dennison Corporation

Net Sales

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

	Three Months Ended July 1, 2017
Reported sales change	5%
Foreign currency translation	1
Sales change ex. currency	6%
Organic sales change	6%

In the second quarter of 2017, net sales increased on an organic basis due to higher volume reflecting growth of both radio-frequency identification products and base apparel tickets and tags.

Operating Income

Operating income increased in the second quarter of 2017 primarily reflecting benefits from productivity initiatives, including savings from restructuring actions, net of transition costs, and higher volume, partially offset by higher employee-related costs.

Industrial and Healthcare Materials

(In millions)	Three Months Ended	
	July 1, 2017	July 2, 2016
Net sales including intersegment sales	\$ 130.3	\$ 120.3
Less intersegment sales	(1.6)	(1.9)
Net sales	\$ 128.7	\$ 118.4
Operating income ⁽¹⁾	11.0	16.9
⁽¹⁾ Included costs associated with transaction costs in 2017 and restructuring in 2016.	\$ 2.4	\$.2

Net Sales

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

	Three Months Ended July 1, 2017
Reported sales change	9%
Foreign currency translation	2
Sales change ex. currency ⁽¹⁾	10%
Acquisitions	(10)
Organic sales change	-%

⁽¹⁾Total may not sum due to rounding

In the second quarter of 2017, net sales were flat on an organic basis as volume was comparable to the prior year, with growth in industrial categories offset by an anticipated decline in healthcare categories.

Operating Income

Operating income decreased in the second quarter of 2017 compared to the same period last year due to the impact of the decline in healthcare categories, higher employee-related costs, and growth investments, partially offset by higher volume in industrial categories and benefits from productivity initiatives, including savings from restructuring actions, net of transition costs. The benefit of higher volume from acquired businesses was more than offset by integration and transaction costs related to acquisitions.

23

[Table of Contents](#)

Avery Dennison Corporation

Income before Taxes

	Six Months Ended	
	July 1, 2017	July 2, 2016
(Dollars in millions)		
Net sales	\$ 3,199.0	\$ 3,027.0
Cost of products sold	2,304.0	2,170.3
Gross profit	895.0	856.7
Marketing, general and administrative expense	560.0	547.4
Interest expense	32.9	30.7
Other expense, net	16.7	55.8
Income from continuing operations before taxes	\$ 285.4	\$ 222.8
Gross profit margin	28.0%	28.3%

Gross Profit Margin

Gross profit margin for the first six months of 2017 decreased compared to the same period last year due to margin decline in the Industrial and Healthcare Materials reportable segment, driven by the program loss in personal care tapes and higher raw material input costs.

Marketing, General and Administrative Expense

Marketing, general and administrative expense increased in the first six months of 2017 compared to the same period last year reflecting the impact of acquisitions and higher employee-related costs, partially offset by benefits from productivity initiatives, including savings from restructuring, net of transition costs, and the favorable impact of foreign currency translation.

Other Expense, net

	Six Months Ended	
	July 1, 2017	July 2, 2016
(In millions)		
Other expense, net by type		
Restructuring charges:		
Severance and related costs	\$ 13.0	\$ 8.8
Asset impairment charges and lease cancellation costs	.3	3.2
Other items:		
Transaction costs	3.4	2.1
Loss from settlement of pension obligations	–	41.4
Loss on sale of asset	–	.3
Other expense, net	\$ 16.7	\$ 55.8

Refer to Note 9, “Cost Reduction Actions,” to the unaudited Condensed Consolidated Financial Statements for more information regarding costs associated with restructuring.

Refer to Note 6, “Pension and Other Postretirement Benefits,” to the unaudited Condensed Consolidated Financial Statements for more information regarding loss from settlement of pension obligations.

Net Income and Earnings per Share

	Six Months Ended	
	July 1, 2017	July 2, 2016
(Dollars in millions, except per share amounts)		
Income before taxes	\$ 285.4	\$ 222.8
Provision for income taxes	52.3	53.2
Net income	\$ 233.1	\$ 169.6
Net income per common share	\$ 2.64	\$ 1.90
Net income per common share, assuming dilution	2.59	1.87
Effective tax rate	18.3%	23.9%

24

[Table of Contents](#)

Avery Dennison Corporation

Provision for Income Taxes

The effective tax rate for the six months ended July 1, 2017 included \$3.4 million of tax benefit from effective settlements of certain foreign tax examinations and changes in our judgment about tax filing positions in certain foreign jurisdictions as a result of new information gained from our interactions with tax authorities, as well as \$4.6 million of tax benefit due to decreases in certain tax reserves, including interest and penalties, as a result of closing tax years. The effective tax rate for the six months ended July 1, 2017 also included a net benefit of \$13.3 million related to our adoption of the accounting guidance update related to stock-based payments described in Note 1, “General.”

The accounting guidance update related to stock-based payments requires that the effect of excess tax benefits associated with stock-based payments be recognized in the income statement instead of in capital in excess of par value as was the case prior to our adoption of this guidance. Excess tax benefits are the effects of tax deductions in excess of compensation expenses recognized for financial accounting purposes. These benefits related to stock-based awards are generally generated as a result of stock price appreciation during the vesting period or between the time of grant and the time of exercise. We expect future excess tax benefits pursuant to this guidance to vary depending on the stock-based payments in future reporting periods. These excess tax benefits may cause variability in our future effective tax rate as they can fluctuate based on vesting and exercise activity, as well as our future stock price. The tax effect of

the tax deductions in excess of compensation cost related to the exercise of nonqualified stock options and vesting of other stock-based compensation awards recognized in capital in excess of par value was \$7.1 million for the six months ended July 2, 2016.

In addition, the effective tax rate for the six months ended July 1, 2017 compared to the same period last year reflects a decrease in tax expense related to repatriation of non-permanently reinvested earnings of certain foreign subsidiaries and favorable changes in the geographic mix of our income before taxes.

The effective tax rate for the six months ended July 2, 2016 included \$6.7 million of tax benefit from the release of valuation allowances against certain deferred tax assets in a foreign jurisdiction associated with a structural simplification approved by the tax authority; \$6 million of tax benefit from changes in our judgment about tax filing positions in certain foreign jurisdictions as a result of new information gained from our interactions with tax authorities; and \$3.3 million of tax benefit due to decreases in certain tax reserves as a result of closing tax years.

Our effective tax rate can vary widely from quarter to quarter due to interim reporting requirements, the recognition of discrete events and the timing of repatriation of foreign earnings. Refer to Note 11, "Taxes Based on Income," to the unaudited Condensed Consolidated Financial Statements for further information.

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

Operating income refers to income before interest and taxes.

Label and Graphic Materials

(In millions)	Six Months Ended	
	July 1, 2017	July 2, 2016
Net sales including intersegment sales	\$ 2,244.4	\$ 2,109.9
Less intersegment sales	(31.7)	(32.7)
Net sales	\$ 2,212.7	\$ 2,077.2
Operating income ⁽¹⁾	283.8	264.9
⁽¹⁾ Included costs associated with restructuring and transaction costs in both years.	\$ 7.2	\$ 8.3

Net Sales

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

	Six Months Ended July 1, 2017
Reported sales change	7%
Foreign currency translation	1
Sales change ex. currency	8%
Acquisitions	(4)
Organic sales change	4%

25

[Table of Contents](#)

Avery Dennison Corporation

In the first six months of 2017, net sales increased on an organic basis primarily due to higher volume. Net sales increased on an organic basis at mid-single digit rates in emerging markets and Western Europe. In North America, net sales increased modestly on an organic basis.

Operating Income

Operating income increased in the first six months of 2017 compared to the same period last year primarily reflecting higher volume and benefits from productivity initiatives, including savings from restructuring, net of transition costs, partially offset by mix and higher employee-related costs.

Retail Branding and Information Solutions

(In millions)	Six Months Ended	
	July 1, 2017	July 2, 2016
Net sales including intersegment sales	\$ 743.5	\$ 719.7
Less intersegment sales	(1.6)	(1.7)
Net sales	\$ 741.9	\$ 718.0
Operating income ⁽¹⁾	54.8	44.6
⁽¹⁾ Included costs associated with restructuring and transaction costs in both years, and loss on sale of an asset in 2016.	\$ 6.6	\$ 5.6

Net Sales

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

	Six Months Ended July 1, 2017
Reported sales change	3%
Foreign currency translation	1
Sales change ex. currency	4%
Organic sales change	4%

In the first six months of 2017, net sales increased on an organic basis due to higher volume reflecting growth in both radio-frequency identification products and base apparel tickets and tags.

Operating Income

Operating income increased in the first six months of 2017 compared to the same period last year reflecting benefits from productivity initiatives, including savings from restructuring actions, net of transition costs, and higher volume, partially offset by higher employee-related costs.

Industrial and Healthcare Materials

(In millions)	Six Months Ended	
	July 1, 2017	July 2, 2016
Net sales including intersegment sales	\$ 247.6	\$ 236.2
Less intersegment sales	(3.2)	(4.4)
Net sales	\$ 244.4	\$ 231.8
Operating income ⁽¹⁾	23.8	32.5
⁽¹⁾ Included costs associated with restructuring in both years and transaction costs in 2017.	\$ 2.9	\$.5

26

[Table of Contents](#)

Avery Dennison Corporation

Net Sales

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

	Six Months Ended July 1, 2017
Reported sales change	5%
Foreign currency translation	2
Sales change ex. currency	7%
Acquisitions	(8)
Organic sales change	(1) %

In the first six months of 2017, net sales decreased on an organic basis primarily due to lower volume, as growth in industrial categories was more than offset by the anticipated decline in healthcare categories.

Operating Income

Operating income decreased in the first six months of 2017 compared to the same period last year due to the impact of the decline in healthcare categories, higher employee-related costs, and growth investments, partially offset by higher volume in industrial categories and benefits from productivity initiatives, including savings from restructuring actions, net of transition costs. The benefit of higher volume from acquired businesses was more than offset by integration and transaction costs related to acquisitions.

FINANCIAL CONDITION

Liquidity

Operating Activities

(In millions)	Six Months Ended	
	July 1, 2017	July 2, 2016
Net income	\$ 233.1	\$ 169.6
Depreciation and amortization	90.8	89.4
Provision for doubtful accounts and sales returns	19.8	21.3
Net losses from asset impairments and sales/disposals of assets	.6	3.2
Stock-based compensation	13.2	14.1
Loss from settlement of pension obligations	–	41.4
Other non-cash expense and loss	28.1	24.1
Changes in assets and liabilities and other adjustments	(207.3)	(147.1)
Net cash provided by operating activities	\$ 178.3	\$ 216.0

For cash flow purposes, changes in assets and liabilities and other adjustments exclude the impact of foreign currency translation (discussed below in “Analysis of Selected Balance Sheet Accounts”).

During the first six months of 2017, cash flow from operating activities decreased compared to the same period last year primarily due to operational working capital improvements in the prior year, the benefit of which did not repeat in the current year, and higher income tax payments, net of refunds. These were partially offset by higher net income. In addition, in the first six months of 2017, operating activities reflected the impact of our adoption of the accounting guidance described above in “Accounting Guidance Update.”

Investing Activities

(In millions)	Six Months Ended	
---------------	------------------	--

	July 1, 2017	July 2, 2016
Purchases of property, plant and equipment	\$ (66.5)	\$ (61.3)
Purchases of software and other deferred charges	(14.9)	(6.1)
Proceeds from sales of property, plant and equipment	.2	3.2
Purchases of investments, net	(4.1)	–
Payments for acquisitions, net of cash acquired, and investments in businesses	(300.9)	–
Net cash used in investing activities	\$ (386.2)	\$ (64.2)

27

[Table of Contents](#)

Avery Dennison Corporation

Capital and Software Spending

During the first six months of 2017, we invested in new equipment to support growth in Asia, Europe, and North America, and to improve manufacturing productivity. During the first six months of 2016, we invested in new equipment to support growth, primarily in Asia, and to improve manufacturing productivity.

During the first six months of 2017, we invested in information technology primarily associated with enterprise resource planning system implementations in North America, Asia, and Europe. During the first six months of 2016, we invested in information technology primarily associated with enterprise resource planning system implementations in North America and Europe.

Payments for Acquisitions

During the first six months of 2017, the aggregate payments for acquisitions, net of cash acquired, was approximately \$300 million, which we funded through cash and existing credit facilities.

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

Financing Activities

(In millions)	Six Months Ended	
	July 1, 2017	July 2, 2016
Net (decrease) increase in borrowings (maturities of three months or less)	\$ (159.5)	\$ 104.6
Additional long-term borrowings	526.6	–
Repayments of long-term debt	(1.5)	(1.2)
Dividends paid	(76.2)	(69.6)
Share repurchases	(70.3)	(160.1)
Proceeds from exercises of stock options, net	17.5	41.4
Tax withholding for and excess tax benefit from stock-based compensation, net	(20.0)	(8.4)
Net cash provided by (used in) financing activities	\$ 216.6	\$ (93.3)

Borrowings and Repayment of Debt

Given the seasonality of our cash flow from operating activities, during the first six months of 2017 and 2016, our commercial paper borrowings were used to fund share repurchase activity, dividend payments, and capital expenditures.

In March 2017, we issued €500 million of senior notes, due March 2025. The senior notes bear an interest rate of 1.25% per year, payable annually in arrears. The net proceeds from the offering, after deducting underwriting discounts and estimated offering expenses, were \$526.6 million (€495.5 million), a portion of which was used to repay commercial paper borrowings that we used to finance a portion of our acquisition of Mactac in August 2016. During the second quarter of 2017, we used the remainder for general corporate purposes, including acquisitions.

Refer to Note 5, “Debt,” and Note 2, “Acquisitions,” to the unaudited Condensed Consolidated Financial Statements for more information.

Dividend Payments

We paid dividends of \$.86 per share in the first six months of 2017 compared to \$.78 per share in the same period last year. In April 2017, we increased our quarterly dividend to \$.45 per share, representing an increase of approximately 10% from our previous dividend rate of \$.41 per share.

Share Repurchases

During the first six months of 2017, we repurchased .9 million shares of our common stock at an aggregate cost of \$70.3 million. During the first six months of 2016, we repurchased 2.4 million shares of our common stock at an aggregate cost of \$160.1 million.

In April 2017, our Board of Directors (“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 and in addition to any amount outstanding under our previous Board authorization. Our Board repurchase authorizations remain in effect until shares in the respective amount authorized thereunder have been repurchased.

As of July 1, 2017, shares of our common stock in the aggregate amount of approximately \$685 million remained authorized for repurchase under our outstanding Board authorizations.

28

[Table of Contents](#)

Avery Dennison Corporation

Tax Withholding for and Excess Tax Benefit from Stock-Based Compensation, Net

During the first six months of 2017, tax withholding for and excess tax benefit from stock-based compensation, net, reflected the impact of our adoption of the previously described accounting guidance update. Refer to “Accounting Guidance Update” above for more information.

Analysis of Selected Balance Sheet Accounts

Long-lived Assets

In the six months ended July 1, 2017, property, plant and equipment, net, increased by approximately \$103 million to \$1.02 billion, which primarily reflected the preliminary valuation of property, plant and equipment from the 2017 Acquisitions of approximately \$65 million.

In the six months ended July 1, 2017, goodwill increased by approximately \$157 million to \$950.4 million, which reflected the preliminary valuation of goodwill associated with the 2017 Acquisitions, purchase price allocation adjustments associated with the acquisition of Mactac completed in August 2016, and the impact of foreign currency translation.

In the six months ended July 1, 2017, other intangibles resulting from business acquisitions, net, increased by approximately \$101 million to \$168.1 million, which reflected the preliminary valuation of other intangibles from the 2017 Acquisitions and the impact of foreign currency translation, partially offset by current year amortization expense.

Refer to Note 4, “Goodwill and Other Intangibles Resulting from Business Acquisitions,” and Note 2, “Acquisitions,” to the unaudited Condensed Consolidated Financial Statements for more information.

In the six months ended July 1, 2017, other assets increased by approximately \$18 million to \$420.6 million, which reflected an increase in the cash surrender value of our corporate-owned life insurance policies and the impact of foreign currency translation, partially offset by amortization expense related to software and other deferred charges, net of purchases.

Shareholders’ Equity Accounts

In the six months ended July 1, 2017, the balance of our shareholders’ equity increased by approximately \$144 million to \$1.07 billion, which primarily reflected net income, the use of treasury shares to settle stock-based awards and fund contributions to our U.S. defined contribution plan, and the impact of foreign currency translation. These increases were partially offset by dividend payments and share repurchases.

Impact of Foreign Currency Translation

(In millions)	Six Months Ended July 1, 2017
Change in net sales	\$ (31)
Change in net income	(4)

International operations generated approximately 75% of our net sales during the six months ended July 1, 2017. 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 unfavorable impact of foreign currency translation on net sales in the first six months of 2017 compared to the same period last year was primarily related to euro-denominated sales and sales in China, partially offset by sales in Brazil.

Effect of Foreign Currency Transactions

The impact on 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. We also utilize certain foreign currency denominated debt to mitigate foreign currency exposure related to our investment in foreign operations.

Analysis of Selected Financial Ratios

We utilize the financial ratios discussed below to assess our financial condition and operating performance.

29

[Table of Contents](#)

Avery Dennison Corporation

Working Capital and Operational Working Capital Ratios

Working capital (current assets minus current liabilities), as a percentage of annualized net sales, was 3.7% in the first six months of 2017 compared to 5.8% in the first six months of 2016 primarily driven by an increase in short-term borrowings and current portion of long-term debt and capital leases, partially offset by increases in trade accounts receivable and inventories, net.

Operational working capital, as a percentage of annualized net sales, reconciled with working capital below, was 12.9% in the first six months of 2017 compared to 11.3% in the first six months of 2016 primarily driven by the impact of acquisitions. Our objective is to minimize our investment in operational working capital, as a percentage of annualized net sales, to maximize cash flow and return on investment.

(Dollars in millions)	Six Months Ended	
	July 1, 2017	July 2, 2016
(A) Working capital	\$ 237.4	\$ 350.3
Reconciling items:		
Cash and cash equivalents	(209.4)	(216.1)

Assets held for sale	(8.3)	(4.4)
Other current assets	(235.5)	(169.6)
Short-term borrowings and current portion of long-term debt and capital leases	444.0	199.0
Accrued payroll and employee benefits and other current liabilities	597.5	525.3
(B) Operational working capital	\$ 825.7	\$ 684.5
(C) Annualized net sales (year-to-date sales, multiplied by two)	\$ 6,398.0	\$ 6,054.0
Working capital, as a percentage of annualized net sales (A) ÷ (C)	3.7%	5.8%
Operational working capital, as a percentage of annualized net sales (B) ÷ (C)	12.9%	11.3%

Accounts Receivable Ratio

The average number of days sales outstanding, calculated using the two-quarter average trade accounts receivable balance divided by the average daily sales for the first six months, was 64 days in the first six months of 2017 compared to 62 days in the first six months of 2016. The increase in the average number of days sales outstanding from the prior year primarily reflected the timing of collections, as well as the impact of acquisitions and the impact of foreign currency translation.

Inventory Ratio

Average inventory turnover, calculated using the annualized cost of sales (cost of sales for the first six months, multiplied by two) divided by the two-quarter average inventory balance, was 7.7 in the first six months of 2017 compared to 8.3 in the first six months of 2016. The decrease in the current year average inventory turnover primarily reflected the impact of acquisitions, as well as the timing of inventory purchases.

Accounts Payable Ratio

The average number of days payable outstanding, calculated using the two-quarter average accounts payable balance divided by the average daily cost of products sold for the first six months, was 73 days in the first six months of 2017 compared to 72 days in the first six months of 2016. The increase in average number of days payable outstanding from the prior year primarily reflected the timing of vendor payments, the impact of foreign currency translation, and the impact of acquisitions.

Capital Resources

Capital resources include cash flows from operations, cash and cash equivalents and debt financing. At July 1, 2017, we had cash and cash equivalents of \$209.4 million held in accounts at third-party financial institutions.

Our cash balances are held in numerous locations throughout the world. At July 1, 2017, the majority of our cash and cash equivalents was held by our foreign subsidiaries.

To meet U.S. cash requirements, we have several cost-effective liquidity options available. These options include borrowing funds at reasonable rates, including commercial paper, borrowings from foreign subsidiaries, and repatriating foreign earnings. However, if we were to repatriate incremental foreign earnings, we may be subject to additional taxes in the U.S.

Our \$700 million revolving credit facility (the “Revolver”) contains financial covenants requiring that we maintain specified ratios of total debt and interest expense in relation to certain measures of income. As of July 1, 2017 and December 31, 2016, we were in compliance with our financial covenants.

30

[Table of Contents](#)

Avery Dennison Corporation

In March 2017, we issued €500 million of senior notes, due March 2025. The senior notes bear an interest rate of 1.25% per year, payable annually in arrears. Refer to Note 5, “Debt,” to the unaudited Condensed Consolidated Financial Statements for more information.

We anticipate using commercial paper borrowings to fund the repayment of \$250 million of senior notes maturing in October 2017.

We are exposed to financial market risk resulting from changes in interest and foreign currency rates, and to possible liquidity and credit risks of our counterparties.

Capital from Debt

Our total debt increased by approximately \$428 million in the first six months of 2017 to \$1.72 billion, primarily reflecting the issuance of senior notes in March 2017. Refer to “Financing Activities” above for more information.

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 paid 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 the commercial paper markets. If our access to commercial paper markets were to become limited, the Revolver and our other credit facilities would be available to meet our short-term funding requirements, if necessary. 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. We remain committed to maintaining an investment grade rating.

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

Refer to Note 15, “Commitments and Contingencies,” to the unaudited Condensed Consolidated Financial Statements.

RECENT ACCOUNTING REQUIREMENTS

Refer to Note 17, “Recent Accounting Requirements,” to the unaudited Condensed Consolidated Financial Statements.

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 December 31, 2016.

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

We periodically assess our internal control environment. During 2014, we began a phased implementation of a new transactional system in our Retail Branding and Information Solutions reportable segment that is expected to continue through 2021. Processes affected by this implementation include order management, pricing, shipping, general accounting, manufacturing and planning. Where appropriate, we are reviewing related internal controls and making changes. Other than this implementation, there have been 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 are currently in the process of reviewing our internal control structure related to businesses acquired in 2017. We will make any necessary changes as we integrate these acquired businesses into our overall process of internal control over financial reporting.

PART II. OTHER INFORMATION**ITEM 1. LEGAL PROCEEDINGS**

Refer to "Legal Proceedings" in Note 15, "Commitments and Contingencies," to the unaudited Condensed Consolidated Financial Statements in Part I, Item 1.

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 December 31, 2016.

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 three fiscal months of the second quarter of 2017 are listed in the table below. Repurchased shares may be reissued under our stock option and incentive plan or used for other corporate purposes.

Period ⁽¹⁾	Total number of shares	Average price paid	Total number of shares purchased as part of	Approximate dollar value of shares that may
-----------------------	------------------------	--------------------	---	---

	purchased ⁽²⁾	per share	publicly announced plans ⁽²⁾⁽³⁾	yet be purchased under the plans ⁽⁴⁾
April 2, 2017 – April 29, 2017	189.8	\$ 80.40	189.8	
April 30, 2017 – May 27, 2017	236.7	83.35	236.7	
May 28, 2017 – July 1, 2017	7.0	87.73	7.0	
Total	433.5	\$ 82.13	433.5	\$ 684.7

⁽¹⁾The periods shown are our fiscal periods during the thirteen-week quarter ended July 1, 2017.

⁽²⁾Shares in thousands.

⁽³⁾In April 2017, 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, and in addition to the amount outstanding under our previous Board authorization. Our Board repurchase authorizations remain in effect until shares in the respective 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

33

[Table of Contents](#)

Avery Dennison Corporation

ITEM 6. EXHIBITS

Exhibit 10.1*†	Offer Letter to Gregory S. Lovins
Exhibit 10.2*†	Form of Director Restricted Stock Unit Agreement under 2017 Incentive Award Plan
Exhibit 10.3*†	Form of Employee Market-Leveraged Stock Unit Agreement under 2017 Incentive Award Plan
Exhibit 10.4*†	Form of Employee Performance Unit Agreement under 2017 Incentive Award Plan
Exhibit 10.5*†	Form of Employee Restricted Stock Unit Agreement under 2017 Incentive Award Plan
Exhibit 10.6*†	Form of Employee Non-Qualified Stock Option Agreement under 2017 Incentive Award Plan
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	XBRL Instance Document
Exhibit 101.SCH	XBRL Extension Schema Document
Exhibit 101.CAL	XBRL Extension Calculation Linkbase Document
Exhibit 101.LAB	XBRL Extension Label Linkbase Document
Exhibit 101.PRE	XBRL Extension Presentation Linkbase Document
Exhibit 101.DEF	XBRL Extension Definition Linkbase Document

* Filed herewith.

** Furnished herewith.

† Management contract or compensatory plan or arrangement required to be filed as an exhibit to this Form 10-Q pursuant to Part II, Item 6 of Form 10-Q.

34

[Table of Contents](#)

Avery Dennison Corporation

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, and
Chief Accounting Officer
(Principal Accounting Officer)

August 1, 2017



Avery Dennison Corporation
 207 Goode Avenue, Suite 500
 Glendale, California 91205
 Phone 626 304-2000
 Fax 626 792-7312

July 10, 2017

Greg Lovins
 [Address]
 [Address]

Dear Greg:

I am pleased to offer you the position of Senior Vice President & Chief Financial Officer, reporting directly to me. This is an Executive - Level 2 position and will begin on July 11, 2017, thus ending your Interim CFO assignment.

The components of your pay package are as follows:

Base Salary: Your annualized rate of pay will be **\$550,000**, paid semi-monthly and subject to normal tax withholdings. Your next salary review will be April 1, 2018. Subsequent salary reviews will be conducted on April 1st of each year, or on another date designated by the Company for a given year.

Bonus: You will be eligible to be considered under Avery Dennison's annual incentive plan ("AIP") to participate at a **60%** of base salary opportunity level, subject to applicable withholdings. Your 2017 AIP award will be prorated, with your current target AIP opportunity of 40% for the first six months of the year and your new target AIP opportunity of 60% for the second six months of the year. The AIP, including eligibility criteria, may change at any time, with or without notice, in accordance with applicable law or, if permissible under the law, at the discretion of the Company.

Long-Term Incentive (LTI) Opportunity: Under the Company's long-term incentive (LTI) compensation program you will be eligible to be considered for an annual LTI award with a target opportunity equivalent to approximately **180%** of your base salary, beginning with the award granted in February 2018. This LTI award can be delivered to you in equity and/or cash.

Special Awards: As a Level 2 Executive, you will be required to comply with the Company's Stock Ownership Guidelines at a 3X base salary multiple. To assist you in complying with these guidelines, you will be granted a special LTI award with a value of approximately \$550,000, which will be delivered in the form of restricted stock units (RSUs) based on the fair market value (FMV) of the Company's common stock on the day of the grant. Subject to your continued employment, this award will be granted on September 1, 2017 and vest in equal installments on the first, second, third and fourth anniversaries of the grant date, subject to your continued employment with the Company through each such anniversary.

The LTI program, including eligibility criteria, may be amended, suspended or terminated at any time, with or without notice, in accordance with applicable law and the applicable plan terms.

Executive Benefits: Effective July 11, 2017, the amount of your annual executive benefit allowance will increase to **\$65,000**, which will be paid in semi-monthly installments with your normal payroll run. If your start date is in the middle of a pay cycle, you will receive the first allowance at the beginning of your next pay cycle. In addition, the Company will reimburse you for up to **\$15,000** per year, for financial planning and/or tax preparation services.

You will continue to be entitled to the benefits generally available to Company employees in accordance with specific plan provisions. You will be a Participant in the Avery Dennison Key Executive Change of Control Severance Plan and the Avery Dennison Executive Severance Plan. In addition, you will be

eligible for an Annual Executive Physical, you may participate in the Executive Long-Term Disability (LTD) plan, and you are entitled to Executive Supplemental Life Insurance.

You will continue to be entitled to unlimited vacation and will not accrue vacation while eligible for the unlimited use program. You will receive holidays in accordance with the Company's holiday policy as it may be established and changed from time to time. Avery Dennison celebrates 12 paid holidays each calendar year and you will be informed of the schedule of holidays for your work location.

Please see the attached Level 2 Benefits Summary as a reference.

Relocation Assistance: So that you can move from Ohio to Southern California, the Company will provide relocation assistance consistent with our Relocation Program, which is attached for your reference. These benefits are taxable according to applicable federal, state, and local laws. A representative from our relocation firm will be contacting you, once your human resources department has initiated your move, to help you get started with the relocation process and to answer any questions you may have. Should you leave the Company within 12 months of your relocation date, you will be required to re-pay the full amount (100%) of the relocation benefit provided. Should you leave the Company after 12 months but within 24 months of your relocation date, you will be required to re-pay 50% of the relocation benefit provided.

Should you choose not to utilize this relocation assistance, the Company will provide you with a one-time lump-sum payment in the amount of \$100,000, less any applicable taxes. This amount is intended to cover or off-set travel related expenses between your home and the Corporate Headquarters until you relocate. It should be noted that any travel related or living expenses to and from Southern California prior to your full-time relocation near the Avery Dennison headquarters after your start date in the SVP/CFO role and before such relocation will not be considered reimbursable expenses. In addition, should you utilize the Company's relocation assistance services in the future, the lump-sum amount will be deducted from the benefits provided.

In this role, you will be considered a Section 16 officer under U.S. securities laws. As a result, you will have obligations to report any transactions you make with respect to Company stock within two business days of the transaction. In addition to these reporting requirements, you can be subject to civil liability for certain "short-swing" transactions. You should discuss these matters with the Law Department.

Please sign and date this offer letter below, indicating that you understand and accept the terms described above. Return the letter, along with the enclosed forms, prior to your start date to LeeAnn Prussak in Corporate Human Resources.

Sincerely,

/s/ Mitch Butier

Mitch Butier
President and CEO

Attachments:
Executive Benefit Summary
Relocation Policy

cc: LeeAnn Prussak
Anne Hill
Mark Alders

Accepted by: /s/ Greg Lovins

Date: July 10, 2017

AVERY DENNISON CORPORATION
RESTRICTED STOCK UNIT AGREEMENT

THIS AGREEMENT, dated **[Grant Date]** (the “Grant Date”), is made by and between Avery Dennison Corporation, a Delaware corporation (the “Company”), and **[Participant Name]**, a non-employee Director of the Company (“Awardee”).

WHEREAS, the Compensation and Executive Personnel Committee has reviewed and recommended, and the Board has approved, the Non-Employee Director Equity Compensation Program, which provides for certain equity awards to be granted annually to the Company’s non-employee Directors; and

WHEREAS, the Company hereby grants an Award of Restricted Stock Units (the “RSUs” and such Award, the “RSU Award”) provided for herein to Awardee under the terms of the Avery Dennison Corporation 2017 Incentive Award Plan (the “Plan”).

NOW, THEREFORE, the Company and Awardee hereby agree as follows:

ARTICLE 1 - DEFINITIONS

Terms not defined herein shall have the meanings given to them in the Plan.

ARTICLE 2 – TERMS OF AWARD

2.1 RSU Award

As of the Grant Date, the Company grants to Awardee the RSU Award, which represents a right to receive **[Number of shares granted]** shares of Common Stock in the future, subject to the terms and conditions set forth in this Agreement and the Plan. Each RSU represents a right to receive one hypothetical share of Common Stock. The RSU Award shall be held on the books and records of the Company (or its designee) for Awardee’s RSU account, but shall not represent an equity interest in the Company until such time as actual shares of Common Stock shall be issued to Awardee. The RSU Award shall be earned, vested and paid as set forth in this Agreement and shall not earn Dividend Equivalents. Except as set forth in Sections 2.4 through 2.6, the RSU Award shall vest and become nonforfeitable on the first anniversary of the Grant Date, subject to Awardee’s continued service as a Director through such anniversary.

2.2 Restriction Period

(a) No portion of the RSU Award may be sold, pledged, assigned or transferred in any manner, other than (i) by will or the laws of descent and distribution or (ii) subject to the consent of the Administrator, pursuant to a DRO, unless and until all or a portion of the RSU Award becomes vested and the underlying shares of Common Stock are issued. The period of time between the Grant Date and the date all or a portion of the RSU Award becomes vested is referred to herein as the “Restriction Period.” At the time all or a portion of the RSU Award vests, all or a portion of the RSUs vest, as applicable. Notwithstanding any other provision, the RSUs must be vested before the Company is obligated to settle the RSU Award as described in Article 3.

(b) Subject to Sections 2.4 through 2.6, if Awardee experiences a Termination of Service, the portion of the RSU Award that has not vested by the time of Awardee’s Termination of Service shall be forfeited by Awardee.

2.3 Lapse of Restriction Period

The Restriction Period shall lapse when the RSU Award vests as set forth above or as otherwise set forth in this Agreement.

2.4 Change in Control

In the event of a Change in Control, the restrictions in this Agreement will lapse and be removed if the RSU Award becomes vested pursuant to Section 13.2(d) or 13.2(e) of the Plan or any Administrator action related thereto.

Director RSU Agreement 4-10-17

1

2.5 Death; Disability

If Awardee’s relationship with the Company terminates by reason of Awardee’s death or Disability, the restrictions imposed upon the RSU Award granted to Awardee pursuant to this Agreement will lapse and be removed, and the RSU Award will be earned and vested as of the date of Termination of Service.

2.6 Retirement

If Awardee’s relationship with the Company terminates by reason of Awardee’s Retirement, the restrictions imposed upon the RSU Award granted to Awardee pursuant to this Agreement will lapse and be removed, and the RSU Award will be earned and vested as of the date of Termination of Service, subject to Section 4.3.

2.7 Adjustments in RSU Award

Without limiting any other actions under Section 13.2 of the Plan, in the event of an Equity Restructuring, the Administrator shall make appropriate and equitable adjustments to the RSU Award granted hereunder in accordance with Section 13.2(c) of the Plan.

ARTICLE 3 – ISSUANCE OF COMMON STOCK

3.1 Maturity Date

Subject to Section 3.2, the Company shall issue via electronic transfer to Awardee’s brokerage account the number of shares of Common Stock represented by the number of vested RSUs as soon as practical following the vesting of same, but in no event later than two and one-half (2.5) months after the date on which the RSUs vest. Delivery of these shares of Common Stock shall satisfy in full the Company’s obligations under this Agreement. The shares of Common Stock deliverable for the RSU Award, or any part thereof, may be either previously authorized but unissued shares, treasury shares or shares purchased on the open market. Such shares shall be fully paid and nonassessable. Awardee shall not have the rights of a shareholder with respect to this RSU Award until the underlying shares of Common Stock are issued to Awardee.

3.2 Conditions to Issuance of Common Stock

Without limiting any conditions set forth in Section 11.4 of the Plan, the issuance of shares of Common Stock is subject to Awardee's establishment of an equity account with a broker designated by the Company (currently Fidelity Investments) so that the shares from vested RSUs may be electronically transferred to Awardee's account.

3.3 Tax Obligations

Without limiting the Company's rights under Section 11.2 of the Plan, Awardee shall be liable for any and all taxes, including withholding taxes, arising out of this RSU Award or the vesting or settlement of the RSU Award hereunder.

ARTICLE 4 – MISCELLANEOUS

4.1 Agreement Subject to Plan

The Agreement is subject to the terms of the Plan, and in the event of any conflict between this Agreement and the Plan, the Plan shall control.

4.2 Administration

The Administrator shall have the power to interpret the Plan and this Agreement and to adopt such rules and procedures for the administration, interpretation and application of the Plan as are consistent therewith and to interpret, amend or revoke any such rules and procedures. Nothing in the Plan or in this Agreement confers upon Awardee any right to continue as a Director for the Company, or shall interfere with or restrict in any way the rights of the Company, which rights are hereby expressly reserved, to discharge Awardee at any time for any reason whatsoever, with or without Cause, and with or without notice, or to terminate or change all other terms and conditions of engagement.

4.3 Section 409A

The RSU Award granted hereunder is intended to be exempt from or comply in all respects with Section 409A, and this Agreement shall be interpreted accordingly. However, in the event that following the Grant Date the Administrator determines that the RSU Award may be subject to Section 409A, the Administrator may (but is not obligated to), without Awardee's consent, adopt such amendments to the Plan and this Agreement or adopt

other policies and procedures (including amendments, policies and procedures with retroactive effect), or take any other actions, that the Administrator determines are necessary or appropriate to (A) exempt the RSU Award from Section 409A and/or preserve the intended tax treatment of the benefits provided with respect to the RSU Award, or (B) comply with the requirements of Section 409A and thereby avoid the application of any penalty taxes under Section 409A. The Company makes no representations or warranties as to the tax treatment of the RSU Award under Section 409A or otherwise. The Company shall have no obligation to take any action (whether or not described herein) to avoid the imposition of taxes, penalties or interest under Section 409A with respect to the RSU Award and shall have no liability to Awardee or any other person if the RSU Award is determined to constitute non-compliant, "nonqualified deferred compensation" subject to the imposition of taxes, penalties and/or interest under Section 409A. No provision of this Agreement or the Plan shall be interpreted or construed to transfer any liability for failure to comply with the requirements of Section 409A from Awardee or any other individual to the Company or any of its affiliates, employees or agents.

4.4 Construction

This Agreement and the Plan and all actions taken thereunder shall be governed by and construed in accordance with the laws of the State of Delaware, without reference to principles of conflict of laws. Titles are provided in this Agreement for convenience only and shall not serve as a basis for interpretation or construction of this Agreement.

IN WITNESS WHEREOF, this Agreement has been executed by the parties hereto.

Awardee

Avery Dennison Corporation

[Signed Electronically]

By: /s/ Dean A. Scarborough
Executive Chairman,
on behalf of the Board of Directors

Acceptance Date: **[Acceptance Date]**

AVERY DENNISON CORPORATION
MARKET-LEVERAGED STOCK UNIT AGREEMENT

THIS AGREEMENT, dated **[Grant Date]** (the "Grant Date"), is made by and between Avery Dennison Corporation, a Delaware corporation ("Company") and **[Participant Name]**, an Employee ("Awardee").

WHEREAS, the Committee or the Chief Executive Officer of the Company, in his capacity as a delegate of the Administrator in accordance with Section 12.6 of the Plan, has decided to grant an Award of Restricted Stock Units, in the form of market-leveraged stock units ("MSUs"), provided for herein to Awardee under the terms of the Avery Dennison Corporation 2017 Incentive Award Plan (the "Plan").

NOW, THEREFORE, the Company and Awardee agree as follows:

Article 1 - DEFINITIONS

Terms not defined herein shall have the meaning given in the Plan.

Article 2 - TERMS OF AWARD

Section 2.1 MSU Award

(a) As of the Grant Date, the Company grants to Awardee an Award of **[Number of shares granted]** MSUs (the "MSU Award"), representing the right to receive Shares in the future in an amount based upon the Total Shareholder Return (as defined below) at the end of each Performance Period described in Section 2.2, subject to the terms and conditions set forth in this Agreement and the Plan. The MSU Award shall be held on the books and records of the Company (or its designee) for Awardee's MSU account, but shall not represent an equity interest in the Company until such time as actual Shares, if any, are issued to Awardee. The MSU Award shall vest and be settled in Shares as set forth in this Agreement. No portion of the MSU Award may be sold, pledged, assigned, or transferred in any manner, other than (i) by will or the laws of descent and distribution or (ii) subject to the consent of the Administrator, pursuant to a DRO, unless and until the MSU Award vests and the Shares are issued to Awardee.

(b) Whenever dividends are paid or distributions made with respect to Common Stock, Awardee shall be entitled to Dividend Equivalents in an amount equal in value to the amount of the dividend paid or property distributed on a single Share multiplied by the number of MSUs in Awardee's MSU account as of the record date for such dividend or distribution, which Dividend Equivalents shall be credited as additional MSUs (rounded down to the nearest whole MSU with fractional MSUs, if any, forfeited) to Awardee's MSU account as of the payable date for such dividend or distribution. The Dividend Equivalents credited as additional MSUs shall vest and be settled in Shares subject to the same terms and conditions as the related MSUs.

Section 2.2 Performance Period

(a) The MSUs shall be ratably divided into four tranches (each, a "Tranche") and each Tranche shall be associated with a specific Performance Period which shall commence on January 1 of the year of grant and end on December 31 of that year (First Tranche), the following year (Second Tranche), the next following year (Third Tranche) and the next following year (Fourth Tranche) (each such Performance Period, a "Performance Period" for the applicable Tranche and the last day of such period, a "Performance Period End Date" for the applicable Tranche).

(b) Each Tranche of the MSUs is unvested as of the Grant Date and, unless earlier forfeited pursuant to the terms of this Agreement, shall be eligible to vest on the Share Vesting Date with

Employee MSU Agreement 5-31-17

respect to such Tranche. For purposes of this Agreement, "Share Vesting Date" shall mean, with respect to each Tranche, the earlier of (i) the date of the Committee's certification of the Total Shareholder Return (which shall occur within 60 days after the end of the January following such Tranche's Performance Period) (the "Certification Date"), or (ii) the date of Termination of Service (A) due to death or Disability or (B) by the Company (or any surviving or successor corporation or parent or subsidiary thereof) without Cause occurring both (x) upon or within 24 months following a Change in Control and (y) at least one year after the Grant Date; provided that, notwithstanding the foregoing, in the event any Termination of Service occurs after the Performance Period End Date, but before the Certification Date, with respect to any Tranche, the Share Vesting Date for such Tranche shall be the Certification Date for such Tranche.

Section 2.3 Termination of Employment

Subject to Section 2.4:

(a) If Awardee experiences a Termination of Service for any reason after the Performance Period End Date, but before the Share Vesting Date, with respect to any Tranche, the MSUs of such Tranche will remain outstanding and eligible to vest on and after the date of Termination of Service.

(b) If Awardee experiences a Termination of Service for any reason (other than as set forth in Section 2.3(c), 2.3(d) or 2.3(e)), except as set forth in Section 2.3(a), all MSUs which remain outstanding on the date of Awardee's Termination of Service shall be forfeited by Awardee for no consideration as of Awardee's Termination of Service.

(c) If Awardee experiences a Termination of Service due to Awardee's death or Disability occurring at least one year after the Grant Date:

(i) a portion of the MSUs with respect to all Performance Periods ending on or after the date of Termination of Service will remain outstanding and eligible to vest on the date of Termination of Service (as set forth in Section 3.2(a)) based on a prorated

time-based formula for each applicable Tranche which, with respect to each such Tranche, shall equal (A) the total number of full months between the first day of the Performance Period and the end of month in which the Termination of Service occurs divided by the total number of full months in such Tranche's Performance Period, multiplied by (B) the number of MSUs of such Tranche; and

(ii) all MSUs that do not otherwise remain outstanding pursuant to Section 2.3(a) or 2.3(c)(i) shall be forfeited by Awardee for no consideration as of Awardee's Termination of Service.

(d) If Awardee experiences a Termination of Service as a result of Retirement occurring at least one year after the Grant Date:

(i) a portion of the MSUs with respect to all Performance Periods ending on or after the date of Termination of Service will remain outstanding and eligible to vest on and after the date of Termination of Service based on a prorated time-based formula for each applicable Tranche which, with respect to each such Tranche, shall equal (A) the total number of full months between the first day of the Performance Period and the end of month in which the Termination of Service occurs divided by the total number of full months in such Tranche's Performance Period, multiplied by (B) the number of MSUs of such Tranche; and

(ii) all MSUs that do not otherwise remain outstanding pursuant to Section 2.3(a) or 2.3(d)(i) shall be forfeited by Awardee for no consideration as of Awardee's Termination of Service.

For the avoidance of doubt, any MSUs that remain outstanding pursuant to this Section 2.3(d) will be eligible to vest thereafter based on Total Shareholder Return as set forth in Section 3.2(b).

(e) If Awardee experiences a Termination of Service by the Company (or any surviving or successor corporation or parent or subsidiary thereof) without Cause occurring both (i) upon or within twenty-four (24) months following a Change in Control and (ii) at least one year after the Grant Date, all outstanding MSUs (other than those described in Section 2.3(a)) will remain outstanding and vest (as set forth in Section 3.2(a)) on the date of Termination of Service.

Section 2.4 Adjustments in MSU Award

Without limiting any other actions under Section 13.2 of the Plan, in the event of an Equity Restructuring, the Administrator shall make appropriate and equitable adjustments to the MSU Award granted hereunder in accordance with Section 13.2(c) of the Plan.

Article 3 - ISSUANCE OF SHARES

Section 3.1 Issuance of Shares

Subject to Section 3.3 below, the Company shall issue the number of Shares set forth in Section 3.2 via electronic transfer to Awardee's brokerage account (less any Shares traded to cover, or associated with net settlement of, withholding taxes) as soon as practical following the Share Vesting Date, but in no event later than sixty (60) days after the applicable Share Vesting Date; provided, however, that, if Awardee is determined at the time of his or her separation from service to be a "specified employee" for purposes of Section 409A(a)(2)(B)(i) of the Code, to the extent delayed settlement of the MSUs is required in order to avoid a prohibited distribution under Section 409A, such payment shall be made on the earlier of (a) the expiration of the six-month period measured from the date of Awardee's "separation from service" (as defined in Section 409A) or (b) the date of Awardee's death. The determination of whether Awardee is a "specified employee" shall be made by the Company in accordance with the terms of Section 409A. Issuance of these Shares with respect to any Tranche shall satisfy the Company's obligations under this Agreement with respect to such Tranche in full and, after such issuance, Awardee shall forfeit and have no rights with respect to the MSUs of such Tranche or any Shares due thereunder. The Shares deliverable for the MSU Award, or any part thereof, may be either previously authorized but unissued shares, treasury shares or shares purchased on the open market. Such Shares shall be fully paid and nonassessable. Awardee shall not have the rights of a shareholder with respect to this MSU Award until the Shares, if any, are issued to Awardee.

Section 3.2 Vesting/Number of Shares

(a) In the event of a Share Vesting Date other than the Certification Date, (i) the outstanding MSUs associated with such Share Vesting Date (after taking into account the effects of Sections 2.3(c) and 2.3(e)) shall, unless previously forfeited, vest on such Share Vesting Date and (ii) subject to Section 3.3, the number of Shares that shall be issued following such Share Vesting Date will equal the number of such vested MSUs.

(b) In the event of any Share Vesting Date that is the Certification Date (including, without limitation, any Share Vesting Date with respect to MSUs described in Section 2.3(a)):

(i) if the Total Shareholder Return for the applicable Tranche's Performance Period is equal to or greater than 1.10, then (A) the MSUs of such Tranche, unless previously forfeited, shall vest and (B) subject to Section 3.3, the number of Shares that shall be issued following such Share Vesting Date will equal the product of (x) the number of vested MSUs of the applicable Tranche and (y) the sum of (I) 1.00 and (II) a fraction, the numerator of which is the excess of such Total Shareholder Return over 1.10, and the denominator of which is 0.65; provided that such fraction shall not exceed 1.00.

(ii) if the Total Shareholder Return for the applicable Tranche's Performance Period is equal to or greater than 0.85 and less than 1.10, then (A) the MSUs of such Tranche, unless previously forfeited, shall vest and (B) subject to Section 3.3, the number of Shares that shall be issued following such Share Vesting Date will equal the product of (x) the number of vested MSUs of the applicable Tranche and (y) the sum of (I) 0.85 and (II) the product of (X) 0.15 and (Y) a fraction the numerator of which is the excess of such Total Shareholder Return over 0.85, and the denominator of which is 0.25.

(iii) if the Total Shareholder Return for the applicable Tranche's Performance Period is less than 0.85, then no MSUs of such Tranche shall vest and such MSUs shall be forfeited by Awardee for no consideration as of such Share Vesting Date.

(c) For purposes of this Agreement, "Total Shareholder Return" shall equal, with respect to a Performance Period, (i) the sum of (A) the average closing share price of Common Stock for all trading days of the January following the respective Performance Period End Date (or, if Common Stock is not traded on an established securities exchange, the Fair Market Value of a Share as of the Share Vesting Date), and (B) the aggregate amount of all dividends paid (on a per Share basis) during such Performance Period, divided by (ii) the average closing share price of Common Stock for all trading days in January of the year of grant.

Section 3.3 Conditions to Issuance of Shares

(a) Without limiting any conditions set forth in Section 11.4 of the Plan, the issuance of Shares is subject to the following conditions:

(i) The receipt by the Company of full payment or withholding for all related taxes in accordance with the Plan. Awardee shall be liable for any and all taxes, including withholding taxes, arising out of this MSU Award or the vesting or settlement of the MSU Award. Subject to the terms and conditions of Section 11.2 of the Plan, the Company may withhold Shares deliverable under the MSU Award to satisfy such tax obligation or take any other actions permitted pursuant to Section 11.2 of the Plan; and

(ii) Awardee establishing an equity account with a broker designated by the Company so that the Shares from vested MSUs (after withholding for applicable taxes) may be electronically transferred to Awardee's account.

Article 4- MISCELLANEOUS

Section 4.1 Agreement Subject to the Plan

The Agreement is subject to the terms of the Plan, and in the event of any conflict between this Agreement and the Plan, the Plan shall control.

Section 4.2 Administration / Compensation Recovery

The Administrator shall have the power to interpret the Plan and this Agreement and to adopt such rules and procedures for the administration, interpretation and application of the Plan as are consistent therewith and to interpret, amend or revoke any such rules and procedures. Nothing in the Plan or in this Agreement confers upon Awardee any right to continue as an employee for the Company or any of its Subsidiaries interferes with or restricts in any way the rights of the Company or any of its Subsidiaries under Section 4.4 of the Plan.

Without limiting Section 11.5 of the Plan, in the case of fraud or other intentional misconduct on the part of Awardee (or any other event or circumstance set forth in any clawback policy implemented by the Company or any Subsidiary, including, without limitation, any clawback policy adopted to comply with

the requirements of Applicable Law, including, without limitation, the Dodd-Frank Wall Street Reform and Consumer Protection Act and any rules or regulations promulgated thereunder (including, without limitation, any listing rules or standards resulting therefrom)) that necessitates a restatement of the Company's or any Subsidiary's financial results (including, without limitation, any accounting restatement due to the material noncompliance with any financial reporting requirement), Awardee will be required to reimburse the Company or a Subsidiary for any incentive compensation issued to Awardee under the Plan (including, without limitation, the MSU Award and Shares issued to Awardee under the MSU Award) in excess of the amount that would have been issued to Awardee based on the restated financial results, as determined by the Company or any Subsidiary pursuant to any applicable clawback policy or otherwise.

Section 4.3 Section 409A

The MSU Award granted hereunder is intended to be exempt from or comply in all respects with Section 409A, and this Agreement shall be interpreted accordingly. However, in the event that following the Grant Date the Administrator determines that the MSU Award may be subject to Section 409A, the Administrator may (but is not obligated to), without Awardee's consent, adopt such amendments to the Plan and this Agreement or adopt other policies and procedures (including amendments, policies and procedures with retroactive effect), or take any other actions, that the Administrator determines are necessary or appropriate to (a) exempt the MSU Award from Section 409A and/or preserve the intended tax treatment of the benefits provided with respect to the MSU Award, or (b) comply with the requirements of Section 409A and thereby avoid the application of any penalty taxes under Section 409A. The Company makes no representations or warranties as to the tax treatment of the MSU Award under Section 409A or otherwise. The Company shall have no obligation to take any action (whether or not described herein) to avoid the imposition of taxes, penalties or interest under Section 409A with respect to the MSU Award and shall have no liability to Awardee or any other person if the MSU Award is determined to constitute non-compliant, "nonqualified deferred compensation" subject to the imposition of taxes, penalties and/or interest under Section 409A. No provision of this Agreement or the Plan shall be interpreted or construed to transfer any liability for failure to comply with the requirements of Section 409A from Awardee or any other individual to the Company or any of its affiliates, employees or agents.

Section 4.4 Construction

This Agreement and the Plan and all actions taken thereunder shall be governed by and construed in accordance with the laws of the State of Delaware, without reference to principles of conflict of laws. Titles are provided in this Agreement for convenience only and shall not serve as a basis for interpretation or construction of this Agreement.

IN WITNESS WHEREOF, this Agreement has been executed and delivered by the parties.

Awardee

Avery Dennison Corporation

[Signed Electronically]

By: /s/ Mitchell R. Butier
President & Chief Executive Officer

AVERY DENNISON CORPORATION

PERFORMANCE UNIT AGREEMENT

THIS AGREEMENT, dated **[Grant Date]** (the “Grant Date”), is made by and between Avery Dennison Corporation, a Delaware corporation (the “Company”) and **[Participant Name]**, an Employee (“Awardee”).

WHEREAS, the Committee or the Chief Executive Officer of the Company, in his capacity as a delegate of the Administrator in accordance with Section 12.6 of the Plan, has decided to grant an Award of Restricted Stock Units, in the form of performance units (“PUs” and the Award, the “PU Award”), provided for herein to Awardee under the terms of the Avery Dennison Corporation 2017 Incentive Award Plan (“Plan”).

NOW, THEREFORE, the Company and Awardee agree as follows:

ARTICLE 1 - DEFINITIONS

Terms not defined herein shall have the meaning given in the Plan.

ARTICLE 2 – TERMS OF AWARD

2.1 PU Award

As of the Grant Date, the Company grants to Awardee a PU Award representing the right to receive **[Number of shares granted]** Shares in the future, assuming that the Company’s results at the end of the performance period described in Section 2.2 produce 100% of the target performance, subject to the terms and conditions set forth in this Agreement and the Plan. Each PU represents the right to receive one Share at 100% target performance. The PU Award shall be held on the books and records of the Company (or its designee) for Awardee’s PU account, but shall not represent an equity interest in the Company until such time as actual Shares, if any, are issued to Awardee. The PU Award shall vest and be settled in Shares as set forth in this Agreement and shall not earn Dividend Equivalents.

2.2 Performance Period

(a) No portion of the PU Award may be sold, pledged, assigned or transferred in any manner, other than (i) by will or the laws of descent and distribution or (ii) subject to the consent of the Administrator, pursuant to a DRO, unless and until such portion of the PU Award vests and the Shares are issued. Awardee must be employed by the Company or one of its Subsidiaries from the Grant Date until the date that the PU Award vests, except as provided in this Section 2.2 and Sections 2.3 through 2.5. The “Performance Period” shall begin on the first day of the fiscal year in which this PU Award is granted and end on the last day of the fiscal year in which the second anniversary of the date of such grant occurs (resulting in a three-year Performance Period). Except as provided in Sections 2.3 and 2.4, within sixty (60) days after the end of the Performance Period, the specific number of Shares to be issued to Awardee under the PU Award shall be determined based on the Company’s results during the Performance Period compared against the Performance Goals approved by the Administrator (as modified by any adjustment items approved by the Administrator and consistent with the Plan); provided that, notwithstanding anything to the contrary in the Plan or the Performance Goals, if the Total Shareholder Return (as defined below), as determined by the Administrator in its sole discretion, is less than 1.00, any payment based on the Performance Goals related to total shareholder return, whether absolute or relative to peer companies, shall in no event exceed the amount achieved based on 100% of

Employee RSU Agreement 5-31-17

target performance. The Performance Goals will be communicated, directly or indirectly, to Awardee as soon as reasonably practical following their approval by the Administrator. For purposes of this Agreement, “Total Shareholder Return” shall equal (i) the sum of (A) the average closing share price of Common Stock for all trading days of the January following the last day of the Performance Period (or, if Common Stock is not traded on an established securities exchange, the Fair Market Value of a Share as of last day of the Performance Period (or, if earlier, any other applicable vesting date), and (B) the aggregate amount of all dividends paid (on a per Share basis) during the Performance Period (or the portion of the Performance Period ending on any applicable earlier vesting date), divided by (ii) the average closing share price of Common Stock for all trading days in January of the year of grant.

(b) Except as provided in Sections 2.3 through 2.5, the PU Award will vest on the last day of the Performance Period, subject to the Administrator’s certification of results of the Performance Goals after the end of the Performance Period.

(c) Subject to Section 2.2(b) and Sections 2.3 through 2.5 of this Agreement, if the PU Award has not vested by the time of Awardee’s Termination of Service, it shall be forfeited by Awardee.

2.3 Change of Control

In the event the PU Award is assumed or an equivalent Award is substituted in connection with a Change in Control, the PU Award will be subject to the terms and conditions of Section 13.2 of the Plan.

2.4 Death; Disability

If Awardee experiences a Termination of Service by reason of Awardee’s death or Disability occurring at least one year after the Grant Date, a prorated portion of the PU Award will vest as of the date of Termination of Service, such proration based on a prorated time-based formula starting with the beginning of the Performance Period through the end of month in which the Termination of Service occurs divided by the total months in the original Performance Period.

2.5 Retirement

If Awardee experiences a Termination of Service by reason of Awardee's Retirement occurring at least one year after the Grant Date, a prorated portion of the PU Award will remain outstanding, such prorated portion based on a prorated time-based formula starting with the beginning of the Performance Period through the end of the month in which the Termination of Service occurs, divided by the total number of months in the Performance Period. The prorated portion of the PU Award that remains outstanding will remain eligible to vest after the end of the Performance Period upon the Administrator's certification of results based on the Company's actual performance as determined under Section 2.2(a) and 3.1.

2.6 Adjustments in PU Award

Without limiting any other actions under Section 13.2 of the Plan, in the event of an Equity Restructuring, the Administrator shall make appropriate and equitable adjustments to the PU Award granted hereunder in accordance with Section 13.2(c) of the Plan.

ARTICLE 3 – ISSUANCE OF SHARES

3.1 Maturity Date

(a) Subject to Sections 3.1(b) and 3.2 below, the Company shall issue via electronic transfer to Awardee's brokerage account the number of Shares represented by the number of vested PUs (less Shares withheld to cover withholding taxes) as soon as practical following the vesting of same, but in no

event later than two and one-half (2.5) months after the end of the calendar year in which the PUs vest. Except as contemplated pursuant to Section 2.3, the number of Shares to be issued will be calculated consistent with the Performance Goals and formula approved by the Administrator and disclosed to Awardee following approval thereof; provided that, upon a Termination of Service by reason of Awardee's death or Disability occurring at least one year after the Grant Date, the number of Shares to be issued will equal 100% of the number of vested PUs. Delivery of these Shares shall satisfy in full the Company's obligations under this Agreement. The Shares deliverable for the PU Award, or any part thereof, may be either previously authorized but unissued shares, treasury shares or shares purchased on the open market. The Shares shall be fully paid and nonassessable. Awardee shall not have the rights of a shareholder with respect to this PU Award until the Shares, if any, are issued to Awardee. If the Administrator determines that no Shares will be issued based on the Performance Goals and the approved formula, then the applicable PUs will be forfeited by Awardee as of the date of such determination.

(b) Notwithstanding Section 3.1(a), if Awardee is determined at the time of his or her separation from service to be a "specified employee" for purposes of Section 409A(a)(2)(B)(i) of the Code, to the extent delayed settlement of the PUs is required in order to avoid a prohibited distribution under Section 409A, such payment shall be made on the earlier of (i) the expiration of the six-month period measured from the date of Awardee's "separation from service" (as defined in Section 409A) or (ii) the date of Awardee's death. The determination of whether Awardee is a "specified employee" shall be made by the Company in accordance with the terms of Section 409A.

3.2 Conditions to Issuance of Shares

Without limiting any conditions set forth in Section 11.4 of the Plan, the issuance of Shares is subject to the following conditions:

(a) The receipt by the Company of full payment or withholding for all related taxes in accordance with the Plan. Awardee shall be liable for any and all taxes, including withholding taxes, arising out of this PU Award or the vesting or settlement of the PU Award hereunder. Subject to the terms and conditions of Section 11.2 of the Plan, the Company may elect to withhold Shares deliverable under the PU Award to satisfy such tax obligation or take any other actions permitted pursuant to Section 11.2 of the Plan; and

(b) Awardee shall establish an equity account with a broker designated by the Company so that the Shares from vested PUs (after withholding for applicable taxes) may be electronically transferred to Awardee's account.

ARTICLE 4 – MISCELLANEOUS

4.1 Agreement Subject to Plan

The Agreement is subject to the terms of the Plan, and in the event of any conflict between this Agreement and the Plan, the Plan shall control.

4.2 Administration / Compensation Recovery

The Administrator shall have the power to interpret the Plan and this Agreement and to adopt such rules and procedures for the administration, interpretation and application of the Plan as are consistent therewith and to interpret, amend or revoke any such rules and procedures. Nothing in the Plan or in this Agreement confers upon Awardee any right to continue as an employee for the Company or any of its Subsidiaries or interferes with or restricts in any way the rights of the Company or any of its Subsidiaries under Section 4.4 of the Plan.

Without limiting Section 11.5 of the Plan, in the case of fraud or other intentional misconduct on the part of Awardee (or any other event or circumstance set forth in any clawback policy implemented by

the Company or any Subsidiary, including, without limitation, any clawback policy adopted to comply with the requirements of Applicable Law, including, without limitation, the Dodd-Frank Wall Street Reform and Consumer Protection Act and any rules or regulations promulgated thereunder (including, without limitation, any listing rules or standards resulting therefrom)) that necessitates a restatement of the Company's or any Subsidiary's financial results (including, without limitation, any accounting restatement due to the material noncompliance with any financial reporting requirement), Awardee will be required to reimburse the Company or a Subsidiary for incentive compensation issued to Awardee under the Plan (including, without limitation, the PU Award and any Shares issued to Awardee under the PU Award) in excess of the amount that would have been issued to Awardee based on the restated financial results, as determined by the Company or any Subsidiary pursuant to any applicable clawback policy or otherwise.

4.3 Section 409A

The PU Award granted hereunder is intended to be exempt from or comply in all respects with Section 409A, and this Agreement shall be interpreted accordingly. However, in the event that following the Grant Date the Administrator determines that the PU Award may be subject to Section 409A, the Administrator may (but is not obligated to), without Awardee's consent, adopt such amendments to the Plan and this Agreement or adopt other policies and procedures (including amendments, policies and procedures with retroactive effect), or take any other actions, that the Administrator determines are necessary or appropriate to (a) exempt the PU Award from Section 409A and/or preserve the intended tax treatment of the benefits provided with respect to the PU Award, or (b) comply with the requirements of Section 409A and thereby avoid the application of any penalty taxes under Section 409A. The Company makes no representations or warranties as to the tax treatment of the PU Award under Section 409A or otherwise. The Company shall have no obligation to take any action (whether or not described herein) to avoid the imposition of taxes, penalties or interest under Section 409A with respect to the PU Award and shall have no liability to Awardee or any other person if the PU Award is determined to constitute non-compliant, "nonqualified deferred compensation" subject to the imposition of taxes, penalties and/or interest under Section 409A. No provision of this Agreement or the Plan shall be interpreted or construed to transfer any liability for failure to comply with the requirements of Section 409A from Awardee or any other individual to the Company or any of its affiliates, employees or agents.

4.4 Construction

This Agreement and the Plan and all actions taken thereunder shall be governed by and construed in accordance with the laws of the State of Delaware, without reference to principles of conflict of laws. Titles are provided in this Agreement for convenience only and shall not serve as a basis for interpretation or construction of this Agreement.

IN WITNESS WHEREOF, this Agreement has been executed and delivered by the parties.

Awardee

Avery Dennison Corporation

[Signed Electronically]

By: /s/ Mitchell R. Butier
President & Chief Executive Officer

Acceptance Date: **[Acceptance Date]**

AVERY DENNISON CORPORATION
RESTRICTED STOCK UNIT AGREEMENT

THIS AGREEMENT, dated **[Grant Date]** (the "Grant Date"), is made by and between Avery Dennison Corporation, a Delaware corporation (the "Company") and **[Participant Name]**, an Employee ("Awardee").

WHEREAS, the Committee or the Chief Executive Officer of the Company, in his capacity as a delegate of the Administrator in accordance with Section 12.6 of the Plan, has decided to grant an Award of Restricted Stock Units ("RSUs" and such Award, the "RSU Award") provided for herein to Awardee under the terms of the Avery Dennison Corporation 2017 Incentive Award Plan (the "Plan").

NOW, THEREFORE, the Company and Awardee agree as follows:

ARTICLE 1 - DEFINITIONS

Terms not defined herein shall have the meaning given in the Plan.

ARTICLE 2 – TERMS OF AWARD

2.1 RSU Award

As of the Grant Date, the Company grants to Awardee an RSU Award representing the right to receive **[Number of shares granted]** Shares in the future, subject to the terms and conditions set forth in this Agreement and the Plan. Each RSU represents the right to receive one Share. The RSU Award shall be held on the books and records of the Company (or its designee) for Awardee's RSU account, but shall not represent an equity interest in the Company until such time as the actual Shares, if any, are issued to Awardee. The RSU Award shall vest and be settled in Shares as set forth in this Agreement and shall not earn Dividend Equivalents. Except as set forth in Sections 2.3 through 2.5 of this Agreement, the RSU Award shall vest twenty-five percent (25%) on each of the first, second, third and fourth anniversaries of the Grant Date, subject to Awardee's continued employment with the Company or one of its Subsidiaries through each such anniversary.

2.2 Restriction Period

(a) No portion of the RSU Award may be sold, pledged, assigned or transferred in any manner, other than (i) by will or the laws of descent and distribution or (ii) subject to the consent of the Administrator, pursuant to a DRO, unless and until such portion of the RSU Award vests and the Shares are issued. Notwithstanding any other provision, the RSUs must vest before the Company is obligated to settle the RSU Award as described in Article 3.

(b) Subject to Sections 2.3 through 2.5 of this Agreement, any portion of the RSU Award that has not vested by the time of Awardee's Termination of Service shall be forfeited by Awardee.

2.3 Change of Control

In the event the RSU Award is assumed or an equivalent Award is substituted in connection with a Change in Control, the RSU Award will be subject to the terms and conditions of Section 13.2 of the Plan. For the avoidance of doubt, no adjustment or action related to the RSU Award in connection with a Change in Control shall be authorized to the extent it would cause the RSU Award to fail to be exempt from or comply with Section 409A.

2.4 Death; Disability

If Awardee experiences a Termination of Service by reason of Awardee's death or Disability occurring at least one year after the Grant Date, the RSU Award will vest as of the date of Termination of Service.

Employee RSU Agreement 5-31-17

2.5 Retirement

If Awardee experiences a Termination of Service by reason of Awardee's Retirement occurring at least one year after the Grant Date, the RSU Award will vest as of the date of Termination of Service.

2.6 Adjustments in RSU Award

Without limiting any other actions under Section 13.2 of the Plan, in the event of an Equity Restructuring, the Administrator shall make appropriate and equitable adjustments to the RSU Award granted hereunder in accordance with Section 13.2(c) of the Plan.

ARTICLE 3 – ISSUANCE OF SHARES

3.1 Maturity Date

(a) Subject to Sections 3.1(b) and 3.2 below, the Company shall issue via electronic transfer to Awardee's brokerage account the number of Shares represented by the number of vested RSUs (less shares withheld to cover withholding taxes) on the date on which the RSUs vest. Delivery of these Shares shall satisfy in full the Company's obligations under this Agreement. The Shares deliverable for the RSU Award, or any part thereof, may be either previously authorized but unissued shares, treasury shares or shares purchased on the open market. Such shares shall be fully paid and nonassessable. Awardee shall not have the rights of a shareholder with respect to this RSU Award until the Shares are issued to Awardee.

(b) Notwithstanding Section 3.1(a), (i) to the extent the RSU Award is subject to Section 409A, no Shares shall be issued to Awardee as a result of his or her Termination of Service unless such Termination of Service qualifies as a "separation from service" as defined in Section 409A, and (ii) if Awardee is determined at the time of his or her separation from service to be a "specified employee" for purposes of Section 409A(a)(2)(B)(i) of the Code, to the extent delayed settlement of the RSUs is required in order to avoid a prohibited distribution under Section 409A, such settlement shall be made on the earlier of (A) the expiration of the six-month period measured from the date of Awardee's "separation from service" (as defined in Section 409A) or (B) the date of Awardee's death. The determination of whether Awardee is a "specified employee" shall be made by the Company in accordance with the terms of Section 409A.

3.2 Conditions to Issuance of Shares

Without limiting the conditions set forth in Section 11.4 of the Plan, the issuance of Shares is subject to the following conditions:

(a) The receipt by the Company of full payment or withholding for all related taxes in accordance with the Plan. Awardee shall be liable for any and all taxes, including withholding taxes, arising out of this RSU Award or the vesting or issuance of Shares. Subject to the terms and conditions of Section 11.2 of the Plan, the Company may withhold Shares deliverable under the RSU Award to satisfy such tax obligation or take any other actions permitted pursuant to Section 11.2 of the Plan; and

(b) Awardee shall establish an equity account with a broker designated by the Company so that the Shares from vested RSUs (after withholding for applicable taxes) may be electronically transferred to Awardee's account.

ARTICLE 4 – MISCELLANEOUS

4.1 Agreement Subject to Plan

The Agreement is subject to the terms of the Plan, and in the event of any conflict between this Agreement and the Plan, the Plan shall control.

4.2 Administration / Compensation Recovery

The Administrator shall have the power to interpret the Plan and this Agreement and to adopt such rules and procedures for the administration, interpretation and application of the Plan as are consistent therewith and to

interpret, amend or revoke any such rules and procedures. Nothing in the Plan or in this Agreement confers upon Awardee any right to continue as an employee for the Company or any of its Subsidiaries interferes with or restricts in any way the rights of the Company or any of its Subsidiaries under Section 4.4 of the Plan.

Without limiting Section 11.5 of the Plan, in the case of fraud or other intentional misconduct on the part of Awardee (or any other event or circumstance set forth in any clawback policy implemented by the Company or any Subsidiary, including, without limitation, any clawback policy adopted to comply with the requirements of Applicable Law, including, without limitation, the Dodd-Frank Wall Street Reform and Consumer Protection Act and any rules or regulations promulgated thereunder (including, without limitation, any listing rules or standards resulting therefrom)) that necessitates a restatement of the Company's or any Subsidiary's financial results (including, without limitation, any accounting restatement due to the material noncompliance with any financial reporting requirement), Awardee will be required to reimburse the Company or a Subsidiary for any incentive compensation issued to Awardee under the Plan (including, without limitation, the RSU Award and Shares issued to Awardee under the RSU Award) in excess of the amount that would have been issued to Awardee based on the restated financial results, as determined by the Company or any Subsidiary pursuant to any applicable clawback policy or otherwise.

4.3 Section 409A

The RSU Award granted hereunder is intended to be exempt from or comply in all respects with Section 409A, and this Agreement shall be interpreted accordingly. However, in the event that following the Grant Date the Administrator determines that the RSU Award may be subject to Section 409A, the Administrator may (but is not obligated to), without Awardee's consent, adopt such amendments to the Plan and this Agreement or adopt other policies and procedures (including amendments, policies and procedures with retroactive effect), or take any other actions, that the Administrator determines are necessary or appropriate to (a) exempt the RSU Award from Section 409A and/or preserve the intended tax treatment of the benefits provided with respect to the RSU Award, or (b) comply with the requirements of Section 409A and thereby avoid the application of any penalty taxes under Section 409A. The Company makes no representations or warranties as to the tax treatment of the RSU Award under Section 409A or otherwise. The Company shall have no obligation to take any action (whether or not described herein) to avoid the imposition of taxes, penalties or interest under Section 409A with respect to the RSU Award and shall have no liability to Awardee or any other person if the RSU Award is determined to constitute non-compliant, "nonqualified deferred compensation" subject to the imposition of taxes, penalties and/or interest under Section 409A. No provision of this Agreement or the Plan shall be interpreted or construed to transfer any liability for failure to comply with the requirements of Section 409A from Awardee or any other individual to the Company or any of its affiliates, employees or agents.

4.4 Construction

This Agreement and the Plan and all actions taken thereunder shall be governed by and construed in accordance with the laws of the State of Delaware, without reference to principles of conflict of laws. Titles are provided in this Agreement for convenience only and shall not serve as a basis for interpretation or construction of this Agreement.

IN WITNESS WHEREOF, this Agreement has been executed and delivered by the parties.

Awardee

Avery Dennison Corporation

[Signed Electronically]

By: /s/ Mitchell R. Butier
President & Chief Executive Officer

Acceptance Date: **[Acceptance Date]**



AVERY DENNISON CORPORATION
NON-QUALIFIED STOCK OPTION AGREEMENT

THIS AGREEMENT (the "Agreement"), dated **[Grant Date]** (the "Grant Date"), is made by and between Avery Dennison Corporation, a Delaware corporation (the "Company"), and **[Participant Name]**, an Employee ("Awardee").

WHEREAS, the Committee or the Chief Executive Officer of the Company, in his capacity as a delegate of the Administrator in accordance with Section 12.6 of the Plan, has decided to grant a Non-Qualified Stock Option provided for herein to Awardee under the terms of the Avery Dennison Corporation 2017 Incentive Award Plan ("Plan").

NOW, THEREFORE, the Company and Awardee agree as follows:

ARTICLE 1 – DEFINITIONS

Terms not defined herein shall have the meaning given in the Plan.

ARTICLE 2 – TERMS OF AWARD

2.1 Option

As of the Grant Date, the Company grants to Awardee an option to purchase any part or all of an aggregate of **[Number of shares granted]** Shares, subject to the terms and conditions in this Agreement and the Plan (the option granted hereunder, the "Option").

2.2 Exercise Price

The exercise price of the Shares covered by the Option shall be **[\$[Grant Price]** per Share without commission or other charge.

2.3 Vesting

The Option shall vest and become exercisable as follows:

2.4 Adjustments in Option

Without limiting any other actions under Section 13.2 of the Plan, in the event of an Equity Restructuring, the Administrator shall make appropriate and equitable adjustments to the Option in accordance with Section 13.2(c) of the Plan.

ARTICLE 3 - EXERCISABILITY

3.1 Exercisability

(a) Each installment that vests and becomes exercisable shall remain exercisable during the Option Term, except as otherwise provided in this Agreement.

1

(b) Subject to Section 3.1(c), no portion of the Option that has not vested and become exercisable under Section 2.3 above as of the date of Termination of Service for any reason, including due to death or Disability, shall thereafter vest or be exercisable and such portion of the Option shall be immediately forfeited by Awardee as of the date of Termination of Service, in each case, unless otherwise determined by the Administrator.

(c) Notwithstanding Section 2.3 and Section 3.1(b) above, and without limiting Section 13.2(d) of the Plan, all unvested Option installments shall vest and become exercisable as of the date of Termination of Service upon Retirement occurring at least one year after the Grant Date.

3.2 Term of Option

The Option will expire and will not, under any condition, be exercisable after the tenth (10th) anniversary of the Grant Date. Such date shall be the Option's Term Expiration Date.

3.3 Exercise of Option after Termination of Service

The vested portion of the Option is exercisable by the Awardee only while the Awardee is employed by the Company or a Subsidiary, subject to the following exceptions:

(a) If Awardee experiences a Termination of Service by reason of Awardee's death while the vested portion of the Option is exercisable under the terms of this Agreement, Awardee's beneficiary may exercise such portion. The vested portion of the Option must be exercised within twelve (12) months after Awardee's death, but not later than the Term Expiration Date.

(b) If Awardee experiences a Termination of Service by reason of Awardee's Disability, Awardee may exercise the vested portion of the Option within thirty-six (36) months after the Termination of Service, but not later than the Term Expiration Date.

(c) If Awardee experiences a Termination of Service by reason of Awardee's Retirement, Awardee may exercise the vested portion of the Option (after taking into account Section 3.1(c), if applicable) during the applicable period set forth below:

- i. if Awardee is, as of the date of Termination of Service, a Level 1 executive, for the period ending on the Term Expiration Date;
- ii. if Awardee is, as of the date of the Termination of Service, a Level 2 through Level 4 executive, for the period ending on the earlier of (A) sixty (60) months after the Termination of Service and (B) the Term Expiration Date; and
- iii. in all other cases, for the period ending on the earlier of (A) thirty-six (36) months after the Termination of Service and (B) the Term Expiration Date.

The applicable level of Awardee shall be determined by the Administrator in its sole discretion.

(d) If the Awardee experiences a Termination of Service other than by the Company for Cause or for the reasons set forth in Sections 3.3(a) through (c) above, Awardee may exercise the vested portion of the Option within six (6) months after the Termination of Service, but not later than the Term Expiration Date.

For the avoidance of doubt, if the Awardee experiences a Termination of Service by the Company for Cause, the Option shall not be exercisable on or following the Termination of Service and shall be immediately forfeited.

ARTICLE 4 - EXERCISE

4.1 Partial Exercise

Any exercisable portion of the Option or the entire Option, if then wholly exercisable, may be exercised in whole or in part. Each partial exercise shall be for not less than a minimum amount of Shares as determined by the Administrator (or a smaller number, if it is the maximum number which may be exercised under Section 2.3), and shall be for whole Shares only.

4.2 Manner of Exercise

Without limiting Sections 7.3, 11.1 and 11.2 of the Plan, the Option, or any exercisable portion thereof, may be exercised by contacting the Company's stock plan administrator (currently Fidelity) and arranging for delivery of all of the following:

(a) A written, telephonic or electronic notice complying with the applicable rules established by the Administrator stating that the Option or a portion thereof is exercised. The notice shall be signed or otherwise acknowledged telephonically or electronically by Awardee or other person entitled to exercise the Option or such portion thereof;

(b) Such representations and documents as the Administrator or stock plan administrator, in their sole discretion, deems necessary or advisable to comply with Applicable Law;

(c) In the event that the Option or a portion thereof is exercised by any person or persons other than Awardee, appropriate proof of the right of such person or persons to exercise the Option or a portion thereof, as determined in the sole discretion of the Administrator or stock plan administrator; and

(d) Full payment of the exercise price and applicable withholding taxes for the Shares with respect to which the Option or portion thereof is exercised in accordance with the Plan. Subject to the terms and conditions of Section 11.2 of the Plan, the Company may elect to withhold Shares deliverable upon exercise of the Option or a portion thereof to satisfy such tax obligation or take any other actions permitted pursuant to Section 11.2 of the Plan.

4.3 Issuance of Shares

The Shares delivered upon exercise of the Option, or any part thereof, may be either previously authorized but unissued shares, treasury shares or shares purchased on the open market. Such Shares shall be fully paid and nonassessable. Awardee shall not have the rights of a shareholder with respect to the Option until the Shares are issued to Awardee.

ARTICLE 5 – MISCELLANEOUS

5.1 Option Subject to Plan

The Option is subject to the terms of the Plan, and in the event of any conflict between this Agreement and the Plan, the Plan shall control.

5.2 Administration / Compensation Recovery

The Administrator shall have the power to interpret the Plan and this Agreement and to adopt such rules and procedures for the administration, interpretation and application of the Plan as are consistent therewith and to interpret, amend or revoke any such rules and procedures. Nothing in the Plan or in this Agreement confers upon Awardee any right to continue as an employee for the Company

or any of its Subsidiaries or shall interfere with or restrict in any way the rights of the Company or any of its Subsidiaries under Section 4.4 of the Plan.

Without limiting Section 11.5 of the Plan, in the case of fraud or other intentional misconduct on the part of Awardee (or any other event or circumstance set forth in any clawback policy implemented by the Company or any Subsidiary, including, without limitation, any clawback policy adopted to comply with the requirements of Applicable Law, including, without limitation, the Dodd-Frank Wall Street Reform and Consumer Protection Act and any rules or regulations promulgated thereunder (including, without limitation, any listing rules or standards resulting therefrom)) that necessitates a restatement of the Company's or any Subsidiary's financial results (including, without limitation, any accounting restatement due to the material noncompliance with any financial reporting requirement), Awardee will be required to reimburse the Company or a Subsidiary for any incentive compensation issued to Awardee under the Plan (including, without limitation, the Option and any Shares issued upon exercise of any portion of the Option) in excess of the amount that would have been issued to Awardee based on the restated financial results, as determined by the Company or any Subsidiary pursuant to any applicable clawback policy or otherwise.

5.3 Option Not Transferable

Neither the Option nor any interest or right therein or part thereof may be sold, pledged, assigned or transferred in any manner, other than (i) by will or the laws of descent and distribution or (ii) subject to the consent of the Administrator, pursuant to a DRO, unless and until the Option is exercised and the Shares are issued. The Option may be exercised during the Awardee's lifetime only by the Awardee, unless it has been disposed of pursuant to a DRO. After the death of Awardee, any exercisable portion of the Option may be exercised by Awardee's personal representative or by any person empowered to do so under Awardee's will or under the then-applicable laws of descent and distribution, subject to the terms and conditions of the Plan.

5.4 Section 409A.

The Option granted hereunder is intended to be exempt from Section 409A, and this Agreement shall be interpreted accordingly. However, in the event that following the Grant Date the Administrator determines that the Option may be subject to Section 409A, the Administrator may (but is not obligated to), without Awardee's consent, adopt such amendments to the Plan and this Agreement or adopt other policies and procedures (including amendments, policies and procedures with retroactive effect), or take any other actions, that the Administrator determines are necessary or appropriate to (a) exempt the Option from Section 409A and/or preserve the intended tax treatment of the benefits provided with respect to the Option, or (b) comply with the requirements of Section 409A and thereby avoid the application of any penalty taxes under Section 409A. The Company makes no representations or warranties as to the tax treatment of the Option under Section 409A or otherwise. The Company shall have no obligation to take any action (whether or not described herein) to avoid the imposition of taxes, penalties or interest under Section 409A with respect to the Option and shall have no liability to Awardee or any other person if the Option is determined to constitute non-compliant, "nonqualified deferred compensation" subject to the imposition of taxes, penalties and/or interest under Section 409A. No provision of this Agreement or the Plan shall be interpreted or construed to transfer any liability for failure to comply with the requirements of Section 409A from Awardee or any other individual to the Company or any of its affiliates, employees or agents.

5.4 Construction

This Agreement and the Plan and all actions taken thereunder shall be governed by and construed in accordance with the laws of the State of Delaware, without reference to principles of conflicts of law. Titles are provided herein for convenience only and are not to serve as a basis for interpretation or construction of this Agreement.

IN WITNESS WHEREOF, this Agreement has been executed by the parties hereto.

Awardee

Avery Dennison Corporation

[Signed Electronically]

By: /s/ Mitchell R. Butier
President & Chief Executive Officer

Acceptance Date: **[Acceptance Date]**

**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

President and Chief Executive Officer

August 1, 2017

**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

August 1, 2017

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 July 1, 2017 (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: August 1, 2017

/s/ Mitchell R. Butier

Mitchell R. Butier

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.

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 July 1, 2017 (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: August 1, 2017

/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.