AptarGroup Inc (ATR)

Updated June 11th, 2019 by Lyn Alden

Key Metrics

Current Price:	$123	**5 Year CAGR Estimate:**	1.5%	**Volatility Percentile:**	12.2%
Fair Value Price:	$87	**5 Year Growth Estimate:**	7.0%	**Momentum Percentile:**	86.2%
% Fair Value:	142%	**5 Year Valuation Multiple Estimate:**	-6.7%	**Growth Percentile:**	67.3%
Dividend Yield:	1.2%	**5 Year Price Target**	$122	**Valuation Percentile:**	12.2%
Dividend Risk Score:	A	**Retirement Suitability Score:**	C	**Total Return Percentile:**	10.0%

Overview & Current Events

AptarGroup Inc (ATR) began trading as an independent company in 1993 and is now one of the leading businesses in the global dispensing systems industry. With a market capitalization of approximately $7.7 billion, the company has over 14,000 employees in 18 countries and produced $2.76 billion in revenue in 2018. The company is divided into three business segments: "Beauty + Home", "Food + Beverage" and "Pharma".

On May 1, 2019 AptarGroup reported first quarter results for the period ending March 31, 2019. For the first quarter, the company generated $744 million in sales compared to $703 million in the prior year. Excluding currency headwinds and one-time acquisition costs, core sales grew approximately 7%. All three segments reported solid core growth, and the Pharma segment had an exceptionally strong quarter. Reported earnings per share for the company grew by 4%, but adjusted earnings per share grew by a more substantial 16%. The board of directors increased the quarterly cash dividend by 6% and authorized up to $350 million in share repurchases.

The company provided outlook for the second quarter of 2019 and anticipates that core sales will continue to grow at a healthy rate but that custom tooling solutions will be lower than the same quarter of last year. They expect earnings per share to grow by approximately 7% compared to earnings from last year, after adjusting for currency exchange rates.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	$1.79	$2.48	$2.65	$2.38	$2.80	$2.85	$3.09	$3.17	$3.41	$3.00	***$4.35***	***$6.10***
DPS	$0.60	$0.66	$0.80	$0.88	$1.00	$1.09	$1.14	$1.22	$1.28	$1.32	***$1.44***	***$2.00***
Shares	67.85	67.02	66.55	66.21	65.40	62.00	62.52	62.15	61.86	62.92	***62.00***	***60.50***

AptarGroup has grown organically and via occasional acquisitions. In 2018, the company spent $528 million on acquisitions, which is its largest amount spent on acquisitions in recent history for the company, and should contribute to significant growth in the coming years.

The Pharma segment is AptarGroup's most profitable segment, as it accounts for approximately one-third of company sales but two-thirds of its EBITDA. During years when acquisitions are not significant, the company historically uses cash or debt to repurchases shares, and has averaged a rate of about 1.5% share reduction per year over the past decade.

The company's current results are being impacted by restructuring and acquisition-related costs. Due to fast growth from its high-margin Pharma segment and substantial recent spending on acquisitions, the company's earnings are expected to increase in 2019. We estimate 7.0% growth over the next five years from 2019 through 2024.

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	18.6	16.8	18.7	21.5	20.8	22.7	21.6	23.9	24.1	32.1	***28.3***	***20.0***
Avg. Yld.	1.8%	1.6%	1.6%	1.7%	1.7%	1.7%	1.7%	1.6%	1.6%	1.4%	***1.2%***	***1.7%***

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AptarGroup currently trades for a valuation of 28.3 times earnings that we consider to be rich for a company with its level of growth. The security looks overvalued when compared to its 10-year average of 22 times earnings. Additionally, the dividend yield is historically low at under 1.2% compared to its average of approximately 1.7%.

From this point, there is more potential for valuation reduction than valuation expansion over the next 5 years. We believe that a valuation of 20x earnings, modestly below its 10-year average, is fair given the company's decent but unspectacular expected growth ahead.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	33.5%	26.6%	30.2%	37.0%	42.0%	38.2%	36.9%	38.5%	37.5%	44.0%	***33.1%***	***32.8%***

AptarGroup has over 5,000 customers, with no customer accounting for more than 6% of sales. Additionally, over 74% of sales come from outside of the United States, with more than half of sales coming from Europe. The company has various patents and trademarks to protect its designs, but faces strong competition and has historically achieved returns on invested capital that are only marginally higher than its weighted average cost of capital. The Pharma segment, however, enjoys high switching costs due to regulatory certification and has higher profit margins overall.

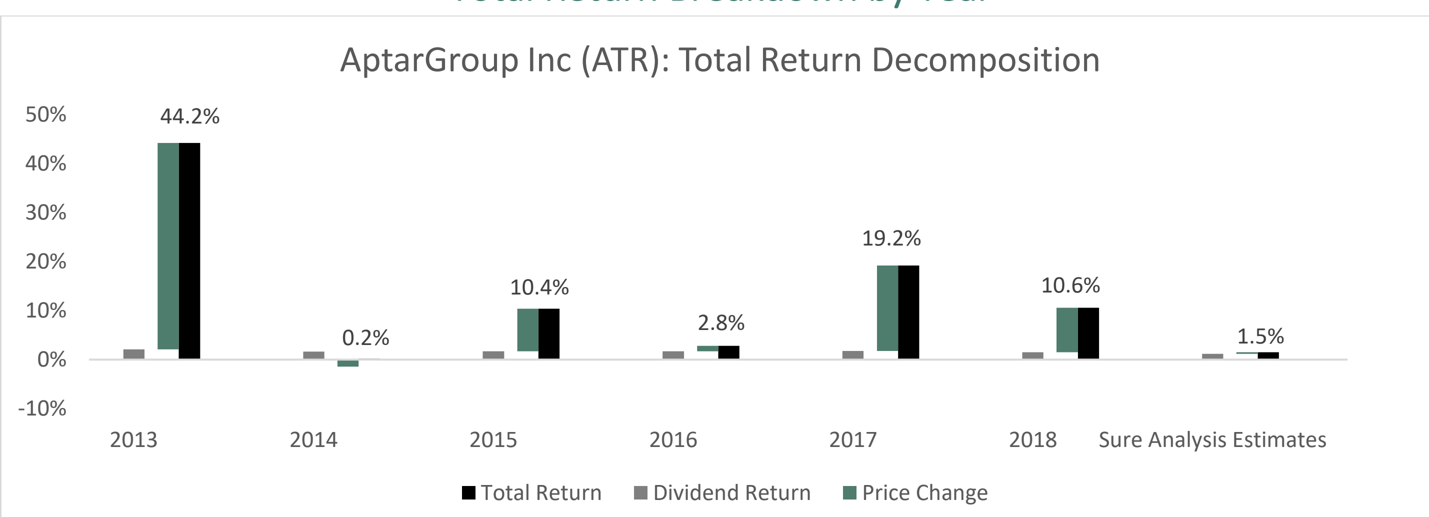
AptarGroup has paid growing dividends for 25 consecutive years and maintains a low payout ratio. The company was only mildly affected by the previous recession, as it remained profitable and quickly recovered to all-time high sales and earnings in 2010. Its products across all three business segments are not very cyclical.

The company has nearly doubled its long-term debt over the past four years, but its interest coverage ratio remains healthy at over 9x. With a ratio of long-term debt to operating income of over 3.2x, AptarGroup makes substantial use of leverage, but not to excess, especially when the high consistency of its earnings is considered.

Final Thoughts & Recommendation

In our view, AptarGroup is a durable company with a long history of growing dividends. However, the valuation is higher than its historical average and compared to what we consider fair for this level of growth. The company's large foreign exposure is both a source of opportunity and a risk. The exchange rates of various foreign currencies, especially the Euro, will have a strong impact on AptarGroup's earnings due to its large international exposure. At the current time, we consider AptarGroup to be a sell due to its low expected total returns.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	1842	2077	2337	2331	2520	2598	2317	2331	2469	2765
Gross Profit	616	698	769	741	811	843	814	835	866	952
Gross Margin	33.4%	33.6%	32.9%	31.8%	32.2%	32.4%	35.2%	35.8%	35.1%	34.4%
SG&A Exp.	277	297	348	342	365	384	351	366	387	430
D&A Exp.	133	133	134	137	150	152	139	155	153	172
Operating Profit	206	268	287	262	296	306	324	314	326	350
Operating Margin	11.2%	12.9%	12.3%	11.2%	11.8%	11.8%	14.0%	13.5%	13.2%	12.7%
Net Profit	125	173	184	163	172	192	199	206	220	195
Net Margin	6.8%	8.4%	7.9%	7.0%	6.8%	7.4%	8.6%	8.8%	8.9%	7.0%
Free Cash Flow	135	159	81	140	134	154	174	194	168	102
Income Tax	59	81	91	79	92	95	95	75	75	71

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	1956	2033	2159	2324	2498	2437	2437	2607	3138	3378
Cash & Equivalents	333	376	378	230	310	400	490	466	713	262
Accounts Receivable	320	357	389	397	438	407	392	433	510	570
Inventories	231	272	285	322	353	311	295	297	337	381
Goodwill & Int. Ass.	240	232	238	404	409	370	342	502	539	967
Total Liabilities	703	753	869	944	1017	1333	1287	1433	1826	1955
Accounts Payable		124	109	137	150	116	115	116	154	165
Long-Term Debt	313	354	439	428	495	841	818	947	1257	1290
Shareholder's Equity	1253	1279	1290	1380	1480	1103	1149	1174	1312	1423
D/E Ratio	0.25	0.28	0.34	0.31	0.33	0.76	0.71	0.81	0.96	0.91

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	6.6%	8.7%	8.8%	7.3%	7.1%	7.8%	8.2%	8.2%	7.7%	6.0%
Return on Equity	10.5%	13.7%	14.3%	12.2%	12.0%	14.8%	17.7%	17.7%	17.7%	14.2%
ROIC	8.3%	10.8%	10.9%	9.2%	9.1%	9.8%	10.2%	10.1%	9.4%	7.4%
Shares Out.	67.85	67.02	66.55	66.21	65.40	62.00	62.52	62.15	61.86	62.92
Revenue/Share	26.39	29.75	33.74	34.08	36.95	38.61	35.93	35.94	38.23	42.56
FCF/Share	1.93	2.28	1.17	2.04	1.96	2.29	2.70	2.99	2.60	1.57

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.