AptarGroup Inc. (ATR)

Updated September 14th, 2019 by Lyn Alden

Key Metrics

Current Price:	$118	**5 Year CAGR Estimate:**	1.4%	**Volatility Percentile:**	14.0%
Fair Value Price:	$84	**5 Year Growth Estimate:**	7.0%	**Momentum Percentile:**	56.0%
% Fair Value:	141%	**5 Year Valuation Multiple Estimate:**	-6.6%	**Growth Percentile:**	70.3%
Dividend Yield:	1.2%	**5 Year Price Target**	$118	**Valuation Percentile:**	14.5%
Dividend Risk Score:	B	**Retirement Suitability Score:**	C	**Total Return Percentile:**	12.4%

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 $7.6 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 July 31st, 2019 AptarGroup reported second quarter results for the period ended June 30th, 2019. For the second quarter, the company generated $743 million in sales compared to $711 million in the prior year, representing a 4.5% increase. The Pharma segment and the Food + Beverage segment posted strong gains, while the Beauty + Home segment posted a mild reduction in sales due to difficult comparisons related to one-time items. Reported earnings per share for the company grew by 30% compared to the same quarter of the prior year, from $0.86 to $1.12, although the more representative adjusted earnings grew by 10% from $1.05 to $1.15. Weakening foreign currencies were a mild headwind for the company during the quarter.

The company reported that they expect continued top-line growth for the rest of 2019, especially from their Pharma segment, but also persistent currency headwinds, a higher tax rate in France, and continued weakness in the Beauty + Home segment. Adjusted earnings are expected to be $0.91-$0.97 for the third quarter.

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	***$4.19***	***$5.88***
DPS	$0.60	$0.66	$0.80	$0.88	$1.00	$1.09	$1.14	$1.22	$1.28	$1.32	***$1.42***	***$1.99***
Shares[1]	67.9	67.0	66.6	66.2	65.4	62.0	62.5	62.2	61.9	62.9	***64.0***	***62.0***

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. During years when acquisitions are not significant, the company historically uses cash or debt to repurchases shares, and has averaged a -1.5% share reduction per year. 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.

The company's Pharma segment is its primary driver of growth, although currency impacts and tax changes are currently acting as headwinds. We estimate 7.0% annual earnings and dividend growth over the next five years.

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	***28.2***	***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%***

[1] Share count is in millions.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

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AptarGroup currently trades for a valuation of 28.2 times earnings, which 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 approximately 1.2% compared to its average of approximately 1.6%.

From this point, we believe there is more potential for a valuation reduction rather 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	34%	27%	30%	37%	36%	38%	37%	38%	38%	44%	***34%***	***34%***

AptarGroup has over 5,000 customers, with no customer accounting for more than 6% of sales. Additionally, three quarters 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.

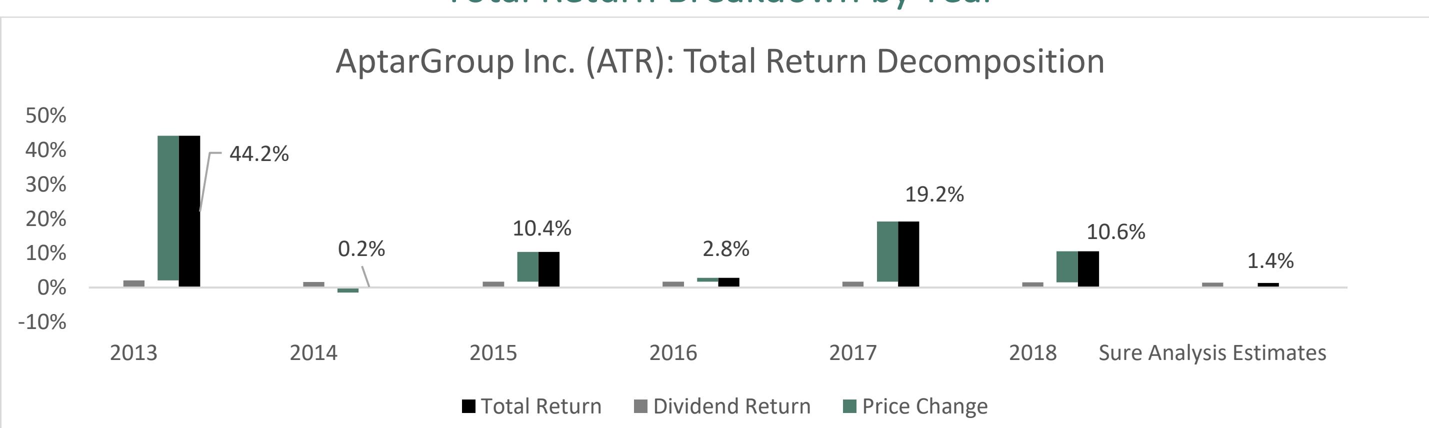
AptarGroup has paid growing dividends for 25 consecutive years and maintains a low payout ratio. The company was only mildly affected by the previous recession, as it remained profitable and quickly recovered to all-time high sales and earnings in 2010. Its products across all three business segments 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 net income of approximately 5x, AptarGroup makes substantial use of leverage, although the consistency of its earnings should allow it to support that leverage safely.

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 of just 1.4% per year.

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.