Atrion Corporation (ATRI)

Updated March 11th, 2023, by Yiannis Zourmpanos

Key Metrics

Current Price:	$605	**5 Year CAGR Estimate:**	10.0%	**Market Cap:**	$1.1 B
Fair Value Price:	$718	**5 Year Growth Estimate:**	5.0%	**Ex-Dividend Date:**	3/14/2023
% Fair Value:	84%	**5 Year Valuation Multiple Estimate:**	3.5%	**Dividend Payment Date:**	3/31/2023
Dividend Yield:	1.4%	**5 Year Price Target:**	$916	**Years Of Dividend Growth:**	18
Dividend Risk Score:	B	**Retirement Suitability Score:**	D	**Rating:**	Buy

Overview & Current Events

Atrion Corporation develops and manufactures products for medical applications. The company's medical products are used in several fields, including cardiovascular, fluid delivery, and ophthalmic applications. The company's fluid delivery products contribute to a significant portion of the company's revenue, accounting for 47% of net revenues for 2021. Cardiovascular products of the company, like Myocardial Protection System, are also popular among customers and formed 34% of the company's sales in 2021. The firm's ophthalmic products include medical devices that disinfect contact lenses. Atrion Corporation generates the majority of its revenue in the United States.

On February 27th, 2023, Atrion Corporation announced its Q4 2022 result, posting total revenues of $42.9 million, up 6.5% from $40.3 million in Q4 2021. The diluted earnings per share for the quarter was reported at $4.70 million, up $0.20 from $4.50 in Q4 2022. The operating income stood at $8.8 million, up $195 thousand from last year's period.

President and CEO David Battat, while commenting on the quarter's results, noted that they are happy with the results of the quarter, as they managed to increase revenues by 6% to an all-time high for a fourth quarter despite supply difficulties. Thus, revenues climbed 11% for the entire year 2022, setting a new company record.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	$13.18	$14.08	$15.47	$14.85	$19.71	$18.44	$19.73	$17.44	$18.81	$19.56	***$20.50***	***$26.16***
DPS	$2.40	$2.78	$3.30	$3.90	$4.50	$5.10	$5.80	$6.60	$7.40	$8.20	***$8.60***	***$13.85***
Shares	2.0	2.0	1.9	1.9	1.9	1.9	1.9	1.8	1.8	1.8	***1.8***	***1.7***

Atrion Corporation's consistent results, with low volatility in earnings, reflect a consistent demand for the company's products and a solid network with the customer base. Since the company's offerings do not fall in the consumer discretionary category, it makes Atrion Corporation more resilient to changes in business cycles. Defensive healthcare stocks appeal to investors in a challenging macro-environment such as today since these companies tend to have low beta and a solid track record of delivering consistent results.

During Q4, the company had a 1% decrease in gross profit margin, from 42% in 2021 to 41% in 2022, caused by steadily rising labor and raw material expenses. However, as inflation normalizes and interest rates peak, we expect the company to stabilize margins for the foreseeable future before the expansion. In addition, Atrion Corporation's new company-wide ERP system and a sizable expansion of the Florida facility will enable for expanding the capacity and meet higher demand.

The company has grown its EPS at a CAGR of 4.5% during the past nine years. Moving forward, we have slightly increased our EPS growth forecast from 4.0% to 5.0% through 2028, reflecting the higher profitability due to automation and higher demand due to expanding capacity. To that effect, the company will also be able to grow its dividends at a healthy pace in the future and has assumed a dividend growth rate of 10.0% for the next five years.

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Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Avg. P/E	17.8	21.9	23.9	28.9	29.8	35.4	40.8	36.4	35.3	32.1	***29.5***	***35.0***
Avg. Yld.	1.0%	0.9%	0.9%	0.9%	0.8%	0.8%	0.7%	1.0%	1.1%	1.3%	***1.4%***	***1.5%***

Atrion Corporation is trading at a forward P/E of 29.5, slightly lower than its five-year average P/E of 35.0. There is a potential for multiple re-rating given the company continues to post solid results amidst a challenging environment. Given the current environment of interest rates, consistent long-term growth, and prospective M&A activity since ATRI could be an attractive target, we maintain our target of P/E at 35.0 to value the company in 2028, in line with the company's 5-year average P/E, suggesting a target price of $916, and a 51% upside potential.

Safety, Quality, Competitive Advantage, & Recession Resiliency

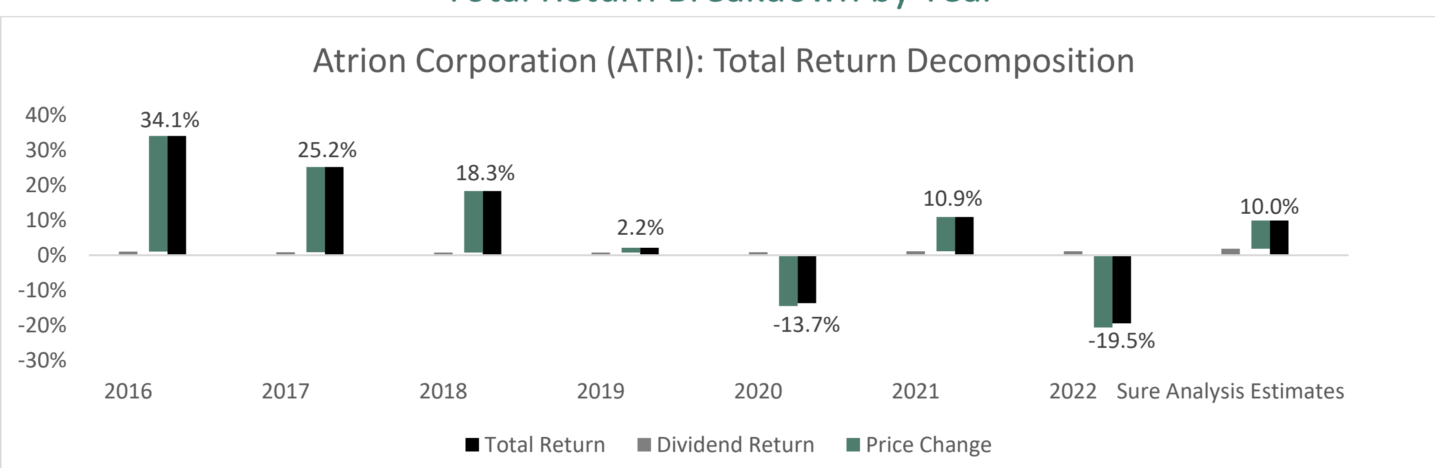
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	18%	20%	21%	26%	23%	28%	29%	38%	39%	42%	***42%***	***31%***

Atrion Corporation's solid cash generation ability is reflected in its solid payout ratio over the years. The company's five-year average payout ratio stands at 33.2%, and the company has been able to grow dividends at a CAGR of 12.8% during the past five years. Moreover, Atrion Corporation has consistently increased its dividend payment to shareholders for the previous 18 years. In addition, the company is at low risk of getting impacted by a possible recession since the company's products don't fall in the discretionary category. However, it is to be noted that the company is a relatively small player in the industry, and some of its competitors have greater financial resources and the ability to invest heavily in R&D to help them capture more market share in the future.

Final Thoughts & Recommendation

We could have been more confident about ATRI, but ROCE has decreased by around 20% during the past five years. However, given that both revenue and the number of assets used in the business have increased, it may indicate that the company is investing in expansion and that the additional capital has temporarily reduced ROCE. If these investments turn out to be profitable, this is encouraging for the long-term performance of stocks. Therefore, as a defensive healthcare company, the company is well-positioned to continue doing well soon. Thus, ATRI earns the buy rating premised upon the 10.0% annualized total returns for the medium-term, with the forecasted earnings-per-share growth of 5.0% and 1.4% dividend yield.

Total Return Breakdown by Year



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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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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	119	132	141	146	143	147	152	155	148	165
Gross Profit	56	63	69	71	68	71	72	71	66	69
Gross Margin	47.2%	47.8%	48.7%	48.7%	47.1%	48.3%	47.1%	45.6%	44.8%	42.0%
SG&A Exp.	19	21	22	22	22	24	25	25	25	28
D&A Exp.	8	9	9	9	9	9	9	11	12	13
Operating Profit	34	38	41	43	39	41	42	41	36	36
Op. Margin	28.2%	28.7%	29.0%	29.2%	27.3%	28.2%	27.4%	26.1%	24.2%	21.8%
Net Profit	24	27	28	29	28	37	34	37	32	33
Net Margin	19.8%	20.1%	19.8%	19.8%	19.2%	25.0%	22.5%	23.7%	21.8%	20.0%
Free Cash Flow	19	27	19	31	27	37	26	22	17	23
Income Tax	11	13	14	12	12	6	8	6	6	5

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	156	172	172	164	182	204	231	262	267	267
Cash & Equivalents	8	29	21	28	20	30	59	45	22	32
Acc. Receivable	13	14	17	17	17	17	17	19	16	21
Inventories	24	26	28	30	29	29	34	42	50	51
Goodwill & Int.	11	13	12	12	12	12	11	11	11	11
Total Liabilities	21	23	22	20	19	19	20	24	26	23
Accounts Payable	4	4	5	4	4	4	5	6	7	7
Long-Term Debt	-	-	-	-	-	-	-	-	-	-
Total Equity	135	149	150	144	163	184	211	238	240	244
LTD/E Ratio	-	-	-	-	-	-	-	-	-	-

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	14.9%	16.2%	16.2%	17.2%	15.9%	19.0%	15.7%	14.9%	12.1%	12.4%
Return on Equity	17.3%	18.7%	18.6%	19.7%	18.0%	21.1%	17.3%	16.4%	13.4%	13.6%
ROIC	17.3%	18.7%	18.6%	19.7%	18.0%	21.1%	17.3%	16.4%	13.4%	13.6%
Shares Out.	2.0	2.0	2.0	1.9	1.9	1.9	1.9	1.9	1.8	1.8
Revenue/Share	58.74	65.44	71.27	77.93	77.27	78.94	82.05	83.23	80.17	90.76
FCF/Share	9.38	13.35	9.39	16.63	14.41	20.12	13.85	11.82	9.42	12.63

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