



Atrion Corporation (ATRI)

Updated September 5th, 2023, by Yiannis Zourmpanos

Key Metrics

Current Price:	\$475	5 Year CAGR Estimate:	5.8%	Market Cap:	\$850 M
Fair Value Price:	\$525	5 Year Growth Estimate:	2.0%	Ex-Dividend Date:	09/14/2023
% Fair Value:	90%	5 Year Valuation Multiple Estimate:	2.0%	Dividend Payment Date:	09/29/2023
Dividend Yield:	1.9%	5 Year Price Target:	\$580	Years Of Dividend Growth:	18
Dividend Risk Score:	B	Retirement Suitability Score:	D	Rating:	Hold

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 August 8th, 2023, Atrion Corporation announced its Q2 2023 results, posting non-GAAP adjusted diluted EPS of \$3.73, compared to \$5.20 for the second quarter of 2022, and total revenues of \$43.84 million were down 10.3% year-over-year. The operating income stood at \$7.4 million, down \$3.7 million from last year's period.

As customers continued to cut their inventory, Atrion Corporation continued to post poor results, with revenue dropping 10% and operating income declining of 33%. Atrion Corporation is implementing and evaluating equipment that will enable the company to fulfil backorders more effectively and shorten lead times after the recent completion of its plant expansion in Florida. Supply chain constraints continue to have an influence on the production of a number of vital cardiovascular and fluid delivery systems, including MPS 3 consoles. To speed up the process of filling any lingering shortfalls, new suppliers have been brought online.

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	\$15.00	\$16.56
DPS	\$2.40	\$2.78	\$3.30	\$3.90	\$4.50	\$5.10	\$5.80	\$6.60	\$7.40	\$8.20	\$8.80	\$11.23
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.

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.

However, the company recorded disappointing results for the second consecutive quarter. Therefore, we have downwardly revised our EPS estimate for 2023 at \$15.00 and the growth forecast from 5.0% to 2.0% through 2028, leading to an EPS estimate of \$16.56 by 2028. To that effect, the company will also be able to grow its dividends at a healthy, but slower pace in the future. We have assumed a dividend growth rate of 5.0% for the next five years.

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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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	31.7	35.0
Avg. Yld.	1.0%	0.9%	0.9%	0.9%	0.8%	0.8%	0.7%	1.0%	1.1%	1.3%	1.9%	1.9%

Atrion Corporation is trading at a forward P/E of 31.7, slightly lower than its five-year average P/E of 35.0. There is a potential for multiple re-rating if the company was 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. This in line with the company's 5-year average P/E, suggesting a target price of \$580, and a 22% upside potential.

Safety, Quality, Competitive Advantage, & Recession Resiliency

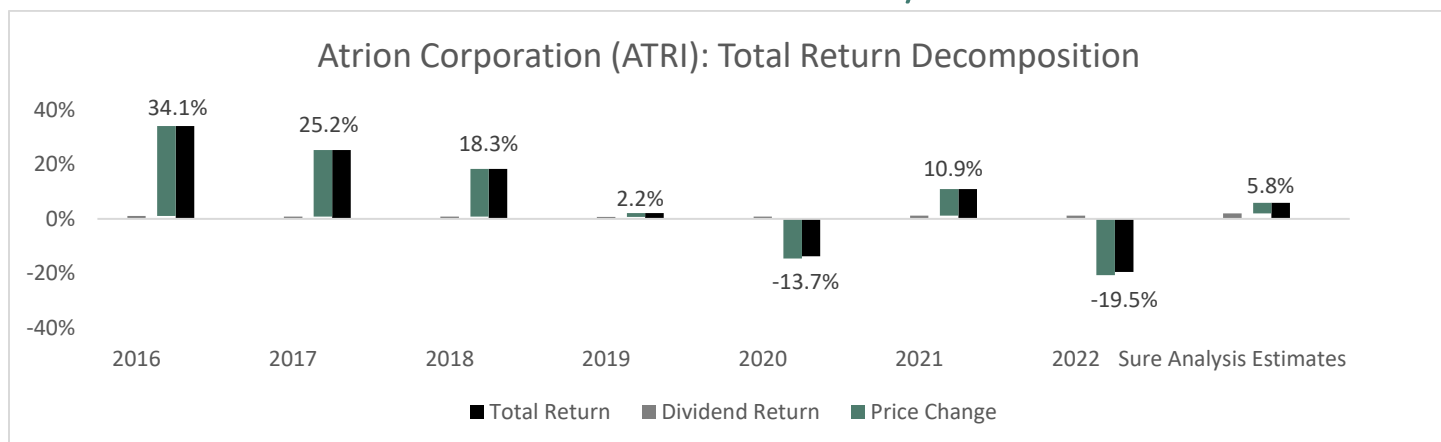
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	18%	20%	21%	26%	23%	28%	29%	38%	39%	42%	59%	31%

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. Additionally, we could have been more confident about ATRI, but return on capital employed 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. Finally, 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

As a defensive healthcare company, the company and the stock should be in a position to perform well. However, the disappointing results of a second consecutive quarter are concerning. Our hold rating is premised upon the 5.8% annualized total returns for the medium-term, stemming from forecasted earnings-per-share growth of 2.0%, the 1.9% dividend yield, and a valuation tailwind.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	132	141	146	143	147	152	155	148	165	184
Gross Profit	63	69	71	68	71	72	71	66	69	76
Gross Margin	47.8%	48.7%	48.7%	47.1%	48.3%	47.1%	45.6%	44.8%	42.0%	41.3%
SG&A Exp.	21	22	22	22	24	25	25	25	28	31
D&A Exp.	9	9	9	9	9	9	11	12	13	14
Operating Profit	38	41	43	39	41	42	41	36	36	40
Op. Margin	28.7%	29.0%	29.2%	27.3%	28.2%	27.4%	26.1%	24.2%	21.8%	21.7%
Net Profit	27	28	29	28	37	34	37	32	33	35
Net Margin	20.1%	19.8%	19.8%	19.2%	25.0%	22.5%	23.7%	21.8%	20.0%	19.0%
Free Cash Flow	27	19	31	27	37	26	22	17	23	(5)
Income Tax	13	14	12	12	6	8	6	6	5	6

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	172	172	164	182	204	231	262	267	267	265
Cash & Equivalents	29	21	28	20	30	59	45	22	32	5
Acc. Receivable	14	17	17	17	17	17	19	16	21	24
Inventories	26	28	30	29	29	34	42	50	51	66
Goodwill & Int.	13	12	12	12	12	11	11	11	11	11
Total Liabilities	23	22	20	19	19	20	24	26	23	25
Accounts Payable	4	5	4	4	4	5	6	7	7	12
Long-Term Debt	-	-	-	-	-	-	-	-	-	-
Total Equity	149	150	144	163	184	211	238	240	244	240
LTD/E Ratio	-	-	-	-	-	-	-	-	-	-

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	16.2%	16.2%	17.2%	15.9%	19.0%	15.7%	14.9%	12.1%	12.4%	13.2%
Return on Equity	18.7%	18.6%	19.7%	18.0%	21.1%	17.3%	16.4%	13.4%	13.6%	14.5%
ROIC	18.7%	18.6%	19.7%	18.0%	21.1%	17.3%	16.4%	13.4%	13.6%	14.5%
Shares Out.	2.0	2.0	1.9	1.9	1.9	1.9	1.9	1.8	1.8	1.8
Revenue/Share	65.44	71.27	77.93	77.27	78.94	82.05	83.23	80.17	90.76	102.52
FCF/Share	13.35	9.39	16.63	14.41	20.12	13.85	11.82	9.42	12.63	(2.76)

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

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