Atrion Corporation (ATRI)

Updated July 11th, 2024, by Yiannis Zourmpanos

Key Metrics

Current Price:	$454	**5 Year CAGR Estimate:**	3.6%	**Market Cap:**	$812.7 M
Fair Value Price:	$444	**5 Year Growth Estimate:**	2.0%	**Ex-Dividend Date:**	09/13/2024[1]
% Fair Value:	102%	**5 Year Valuation Multiple Estimate:**	-0.4%	**Dividend Payment Date:**	09/27/2024[2]
Dividend Yield:	1.9%	**5 Year Price Target:**	$490	**Years Of Dividend Growth:**	21
Dividend Risk Score:	C	**Retirement Suitability Score:**	D	**Rating:**	Hold

Overview & Current Events

Atrion Corporation (ATRI) 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 May 10th, 2024, Atrion Corporation announced its Q1 2024 results, posting non-GAAP adjusted diluted EPS of $1.59, down from $1.98 in the prior year, and total revenues of $47.3 million that were up 18.3 year-over-year.

Excluding a one-time write-off, operating income increased 22% on strong sales of both OEM fluid delivery products and MPS 3 consoles to record numbers following the resolution of supply chain problems and strong market demand. CEO David Battat remarked that GAAP gross margins were 26.1% but adjusted to 31.0% after backing out the inventory write-off versus 37.7% in Q1 2023. This was due to production line shutdowns aimed at flushing excess inventory from 2023 and due to product mix—specifically, the lower-margin MPS 3 consoles. According to Battat, the inventory reduction process is on track, and assuming average production could resume in Q3 2024, margins could be better. Also, ensuring weaker investment portfolio performance contributed to the reported 20% decline in net income. Atrion remained debt-free as of March 31, 2024, with cash and investments amounting to $18.7 million.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$14.08	$15.47	$14.85	$19.71	$18.44	$19.73	$17.44	$18.81	$19.56	$11.02	***$12.00***	***$13.25***
DPS	$0.64	$0.75	$0.90	$1.05	$1.20	$1.35	$1.55	$7.40	$8.20	$8.70	***$8.80***	***$11.23***
Shares[3]	2.0	1.9	1.9	1.9	1.9	1.9	1.8	1.8	1.8	1.8	***1.8***	***1.7***

As inflation normalizes and interest rates peak, we expect the company to stabilize margins for the foreseeable future as it had before the expansion. In addition, Atrion Corporation's new company-wide ERP system and a sizable expansion of the Florida facility will enable the expansion of capacity and meet higher demand.

With production of MPS 3 consoles at record levels and new partnerships underway, Atrion anticipates a return to growth in 2024, expecting a high single-digit revenue increase and improved operating income in the latter half of the year, supported by a debt-free position and significant cash reserves. Therefore, we maintain our EPS estimate for 2024 at $12.00 and the low growth forecast at 2.0% through 2029, leading to an EPS estimate of $13.25 by 2029. The

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[1] Estimated ex-dividend date

[2] Estimated dividend payment date

[3] Shares in millions.

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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.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	21.9	23.9	28.9	29.8	35.4	40.8	36.4	35.3	32.1	45.8	***37.8***	***37.0***
Avg. Yld.	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	1.1%	1.3%	1.7%	***1.9%***	***2.3%***

Atrion Corporation is trading at a forward P/E of 37.8, slightly ahead of its five-year average P/E of 37.6. There is a potential for a slight re-rating if the company posts solid results amidst a challenging environment. Given the current environment of interest rates, consistent long-term growth, and prospective M&A activity that could make ATRI an attractive target, we maintain our target of P/E at 37.0. This suggest a target price of $490.

Safety, Quality, Competitive Advantage, & Recession Resiliency

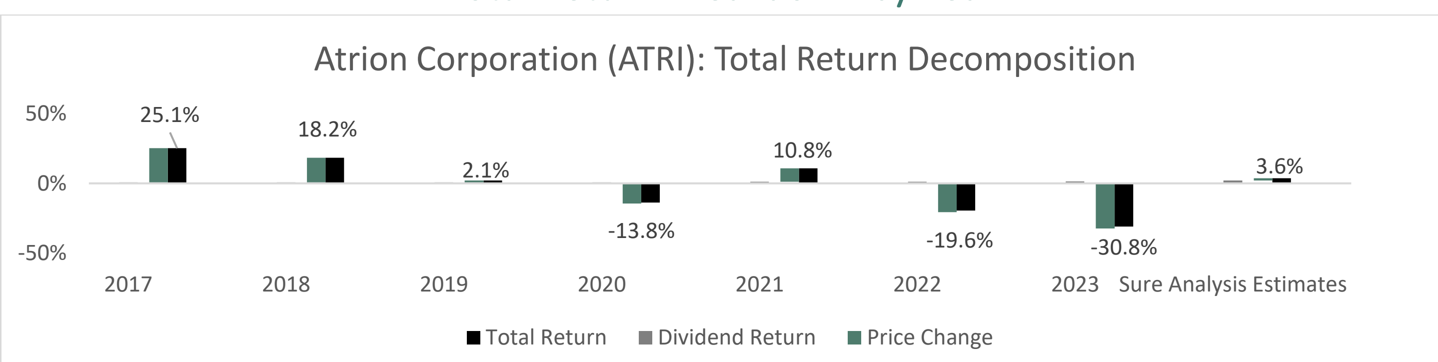
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	5%	5%	6%	5%	7%	7%	9%	39%	42%	79%	***73%***	***85%***

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 30.4%, and the company has been able to grow dividends at a CAGR of 48.6% during this time. Finally, Atrion Corporation has consistently increased its dividend payment to shareholders for 21 years. In addition, the company is at low risk of being impacted by a possible recession since its products don't fall into 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, Atrion Corporation and its stock should be able to perform well. Atrion Corporation expects to see improved margins and a return to normal production levels in the second half of 2024, driven by resumed OEM orders and strong demand for its MPS 3 consoles. Our hold rating is premised upon the 3.6% annualized total returns for the medium-term, stemming from forecasted earnings-per-share growth of 2.0%, the 1.9% dividend yield, and a small valuation headwind.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	141	146	143	147	152	155	148	165	184	169
Gross Profit	69	71	68	71	72	71	66	69	76	62
Gross Margin	48.7%	48.7%	47.1%	48.3%	47.1%	45.6%	44.8%	42.0%	41.3%	36.7%
SG&A Exp.	22	22	22	24	25	25	25	28	31	33
D&A Exp.	9	9	9	9	9	11	12	13	14	15
Operating Profit	41	43	39	41	42	41	36	36	40	23
Op. Margin	29.0%	29.2%	27.3%	28.2%	27.4%	26.1%	24.2%	21.8%	21.7%	13.6%
Net Profit	28	29	28	37	34	37	32	33	35	19
Net Margin	19.8%	19.8%	19.2%	25.0%	22.5%	23.7%	21.8%	20.0%	19.0%	11.2%
Free Cash Flow	19	31	27	37	26	22	17	23	(5)	(2.3)
Income Tax	14	12	12	6	8	6	6	5	6	3

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	172	164	182	204	231	262	267	267	265	261
Cash & Equivalents	21	28	20	30	59	45	22	32	5	3.6
Acc. Receivable	17	17	17	17	17	19	16	21	24	23
Inventories	28	30	29	29	34	42	50	51	66	82
Goodwill & Int.	12	12	12	12	11	11	11	11	11	11
Total Liabilities	22	20	19	19	20	24	26	23	25	18
Accounts Payable	5	4	4	4	5	6	7	7	12	6.6
Long-Term Debt	-	-	-	-	-	-	-	-	-	-
Total Equity	150	144	163	184	211	238	240	244	240	243
LTD/E Ratio	-	-	-	-	-	-	-	-	-	-

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	16.2%	17.2%	15.9%	19.0%	15.7%	14.9%	12.1%	12.4%	13.2%	7.4%
Return on Equity	18.6%	19.7%	18.0%	21.1%	17.3%	16.4%	13.4%	13.6%	14.5%	8.1%
ROIC	18.6%	19.7%	18.0%	21.1%	17.3%	16.4%	13.4%	13.6%	14.5%	8.1%
Shares Out.	2.0	1.9	1.9	1.9	1.9	1.9	1.8	1.8	1.8	1.8
Revenue/Share	71.27	77.93	77.27	78.94	82.05	83.23	80.17	90.76	102.52	96.15
FCF/Share	9.39	16.63	14.41	20.12	13.85	11.82	9.42	12.63	(2.76)	(1.31)

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