

AptarGroup, Inc. (ATR)

\$116.95 (As of 02/04/20)

Price Target (6-12 Months): **\$124.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 01/02/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:B

Value: D

Growth: A

Momentum: B

Summary

AptarGroup projects fourth-quarter adjusted earnings per share at 74-80 cents. Its Beauty + Home segment is benefiting from business-transformation plan to drive top-line growth, boost operational excellence, enhance its approach to innovation and improve organizational effectiveness. However, AptarGroup expects to incur higher implementation costs over the next three years related to business-transformation plan in the segment. This in turn will impact the company's margins. Further, the segment's growth in the beauty and home care markets is being offset by weak demand in the personal care market. AptarGroup's results are likely to bear the brunt of currency fluctuation and higher tax rate. Nevertheless, the company remains committed to expand its business through acquisitions to expand technologies and product offerings.

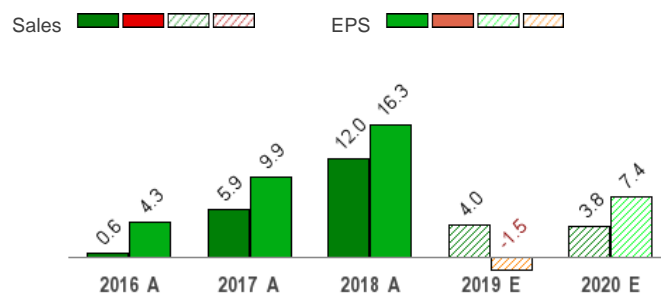
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$126.20 - \$99.21
20 Day Average Volume (sh)	219,924
Market Cap	\$7.5 B
YTD Price Change	1.2%
Beta	0.66
Dividend / Div Yld	\$1.44 / 1.2%
Industry	Containers - Paper and Packaging
Zacks Industry Rank	Bottom 24% (194 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-2.1%
Last Sales Surprise	0.3%
EPS F1 Est- 4 week change	-0.7%
Expected Report Date	02/20/2020
Earnings ESP	1.8%
P/E TTM	28.7
P/E F1	27.7
PEG F1	2.7
P/S TTM	2.6

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	745 E	764 E	728 E	698 E	2,983 E
2019	744 A	743 A	701 A	678 E	2,875 E
2018	703 A	711 A	666 A	685 A	2,765 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$1.01 E	\$1.13 E	\$1.04 E	\$0.93 E	\$4.23 E
2019	\$1.07 A	\$1.15 A	\$0.93 A	\$0.79 E	\$3.94 E
2018	\$0.99 A	\$1.09 A	\$0.99 A	\$0.92 A	\$4.00 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 02/04/2020. The reports text is as of 02/05/2020.

Overview

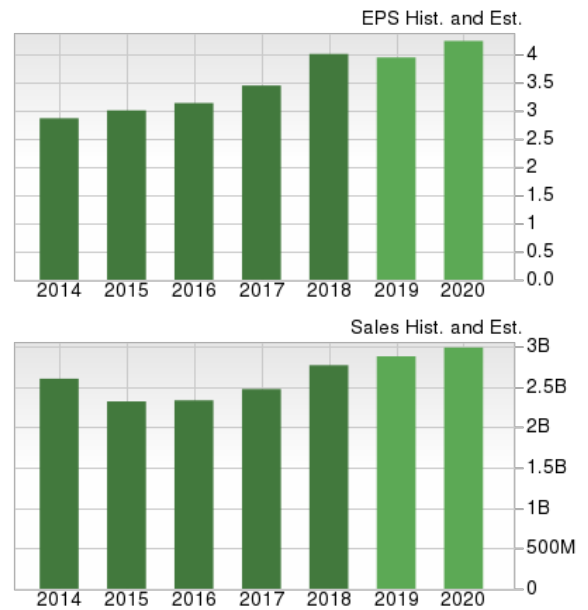
Headquartered in Crystal Lake, IL, AptarGroup is a global supplier of a broad range of innovative dispensing, sealing and active packaging solutions for the beauty, personal care, home care, prescription drug, consumer health care, injectables, food and beverage markets. Its main products include dispensing pumps, closures, aerosol valves and elastomeric primary packaging components. The company has manufacturing facilities across the globe including North America, Europe, Asia and South America. The company's primary products are dispensing pumps, closures, aerosol valves and elastomeric primary packaging components.

AptarGroup operates through three market-focused business segments - Beauty + Home, Pharma, and Food + Beverage.

The **Beauty + Home** segment (52% of AptarGroup's sales in fiscal 2018) consists of operations that sell dispensing systems primarily to the beauty, personal care and home care markets. The segment sells pumps, closures, aerosol valves and accessories to the personal care and home care markets and pumps and decorative components to the beauty market. Sales to the beauty, the personal care and the home care market accounted for approximately 49%, 44% and 7%, respectively, of the segment's total net sales in 2018.

The **Pharma** segment (34% of sales in 2018) sells dispensing systems or primary packaging components to the prescription drug, consumer health care and injectables markets. AptarGroup is the leading supplier of pumps and metered dose inhaler valves (MDIs) to the pharmaceutical market worldwide and is the number three supplier of elastomer primary packaging components worldwide. Sales to the prescription drug market generated around 52% of the segment's total net sales in 2018. The consumer health care market accounted for approximately 27% of the segment's total net sales in 2018, while the injectables market accounted for approximately 17%.

The **Food + Beverage** segment (14%) sells dispensing closures and as well as non-dispensing closures, spray pumps and aerosol valves to the food and beverage markets. Sales to the food market accounted for approximately 64% of the segment's total net sales in 2018, while the beverage market accounted for the balance 36%.



Reasons To Buy:

- ▲ In late 2017, AptarGroup began a business-transformation plan to drive top-line growth, boost operational excellence, enhance its approach to innovation and improve organizational effectiveness. The company remains on track with its business transformation which primarily focuses on the Beauty + Home segment. The company expects the business-transformation plan to yield incremental EBITDA of approximately \$80 million by the end of 2020, principally within the Beauty + Home segment.
- ▲ AptarGroup remains committed to expand its business through acquisitions to expand the scope of technologies, geographic presence and product offerings. On Oct 31, AptarGroup acquired Noble International, which a leader in drug delivery training devices and patient onboarding. The acquisition is in sync with AptarGroup's strategy to broaden service portfolio for pharmaceutical and biotech customers. It strengthens the company's position in an attractive, rapidly growing market segment (device trainers and compliance monitoring).
- ▲ Recently, AptarGroup signed an agreement to acquire 49% equity interest in three related BTY companies in China, in a bid to capitalize on the high-growth Asian color cosmetics market. In August, the company completed the asset acquisition of the remaining 80% interest in Bapco, which provides innovative closures sealing technology. AptarGroup had previously acquired Nanopharm and Gateway Analytical, which is likely to expand its service portfolio that supports pharmaceutical and biotech customers. Last year, the company acquired CSP Technologies, a leader in active packaging technology based on proprietary material science expertise.
- ▲ AptarGroup is also poised to gain from innovative product launches. In the Pharma segment, the Activ-Blister packaging solution developed by AptarGroup for oral solid dose drug delivery was recently approved by the U.S. Food and Drug Administration for an HIV prevention medicine. This marks the first FDA approval for its proprietary Activ-Blister system, which protects and contributes to the stability of oral solid dose drugs with a solution that is fully integrated into the blister package. The company also entered into an agreement with Bryn Pharma, a privately held pharma company for the development of a nasal spray version of epinephrine using its Bidose nasal device. In the Food + Beverage segment, the increasing trend towards squeezable packaging options provides growth opportunities.
- ▲ In the nine-month period ended Sep 30, 2019, the company generated free cash flow of \$194 million, a substantial improvement from \$64 million in the prior-year comparable period. This was driven by improved results and working capital improvements. The company also continues to lower debt levels. The ratio of net debt to net capital was 37.1% as of Sept 30, 2019 compared with 41.9% at Dec 31, 2018. The company also continues to invest in growth. Capital expenditure is projected at \$240-\$260 million.

AptarGroup is poised to gain from business-transformation plan to drive top-line growth and improve organizational effectiveness. Innovative product launches and acquisitions will also fuel growth.

Reasons To Sell:

- ▼ AptarGroup now projects adjusted earnings per share (EPS) for fourth-quarter 2019 between 74 cents and 80 cents. Compared with earnings per share of 92 cents reported in the prior-year quarter, the mid-point of the guidance range indicates a decline of 16%. The company anticipates a higher tax rate of 30-32% for the quarter. Higher tax rate is due to the recently-enacted corporate tax rate hike in France. The company is facing a challenging fourth quarter considering the prior-year strong performance. Further, results in the fourth quarter typically are negatively impacted by customer plant shutdowns in December.
- ▼ The allergy category, which is a significant part of the pharma business, has been delivering above-average performance over the last 12 to 18 months. This can be attributed to the huge success of the branded treatments being now sold over-the-counter in significant quantities. The company expects growth to normalize in the near term.
- ▼ In the Beauty + Home segment, growth in the beauty and home care markets is being offset by weak demand in the personal care market. The company is witnessing a general softening of demand across most of its major applications, especially body care and hair care products, as political and economic uncertainties are leading to some customer destocking. Notably, core sales to the personal care market were down 5% in the first nine months of the year due to general softness in demand and lower product and tooling sales related to large product launch for a specific North America customer in second-quarter 2018.
- ▼ AptarGroup expects to incur implementation costs of approximately \$90 million over the next three years related to business-transformation plan in the Beauty + Home segment. In 2018, the company recognized \$64 million of restructuring costs related to this plan and expects to incur an additional \$40 million in 2019. These costs remain a drag for earnings in the near term. AptarGroup's results will bear the brunt of fluctuation in foreign currency rates. The company has primary foreign exchange exposure to the euro, in addition to the Chinese yuan, Brazilian real, Mexican peso, Swiss franc and other Asian, European and South American currencies. A strengthening U.S. dollar relative to foreign currencies has an effect on financial statements.

AptarGroup's near-term results will be hurt by weak personal care markets, return of normal growth in the allergy sector, higher tax rate and costs related to its business-transformation plan.

Last Earnings Report

AptarGroup Earnings Miss, Revenues Meet Estimates in Q3

AptarGroup delivered third-quarter 2019 adjusted earnings per share of 93 cents, missing the Zacks Consensus Estimate of 95 cents by a margin of 2.1%. Further, the bottom line declined 4% year over year.

On a reported basis, the company recorded earnings of 85 cents per share compared with the year-ago quarter's 60 cents.

Total revenues improved 5% year over year to \$701 million in the September-end quarter. The top-line figure comes in line with the Zacks Consensus Estimate. Core sales growth and acquisitions contributed 4% each, while currency exchange rates unfavorably impacted sales by 3%. Strong broad-based demand for drug delivery and food dispensing solutions drove top-line core growth during the quarter.

Operational Update

Cost of sales was up 2% to \$444 million from the \$435 million recorded in the year-ago quarter. Gross profit increased 11.3% year over year to \$257 million. Gross margin came in at 36.7% during the July-September quarter, up from the prior-year quarter's 34.7%.

Selling, research, development and administrative expenses rose 7.7% year over year to \$111.5 million. Adjusted operating income went up 5.4% year over year to \$89.6 million. Operating margin remained flat, year on year, at 12.7%. Adjusted EBITDA increased 9.3% year over year to \$146.8 million in the reported quarter.

Segmental Performance

Total revenues in the Beauty + Homes segment declined 4% year over year to \$328.2 million. Adjusted operating income in the third quarter was down 7.2% year over year to \$20.7 million. Increased sales to the beauty and home care markets were offset by weak demand from the personal care market.

Total revenues in the Pharma segment jumped 18.3% year over year to \$269.2 million. Broad-based demand for industry-leading drug delivery devices drove this segment's top-line growth. Adjusted operating income climbed 11.2% year over year to \$79.7 million in the third quarter.

Total revenues in the Food + Beverage segment were up 7.6% year over year to \$103.8 million. Operating income grew 12.8% year over year to \$9.7 million. Rising demand in the food market muted the softer product demand from the beverage market.

Financial Performance

AptarGroup reported cash and cash equivalents of \$270.5 million at the end of the reported quarter, up from \$262 million as of Dec 31, 2018. At the quarter's end, long-term debt was approximately \$1,075 million, down from \$1,125 million as of Dec 31, 2018.

AptarGroup's board has announced quarterly cash dividend of 36 cents per share. The dividend is payable on Nov 20, to shareholders of record as of Oct 30, 2019.

Acquisitions

On Oct 31, AptarGroup acquired Noble International for \$62 million. Noble is a leader in drug delivery training devices and patient onboarding. The acquisition backs AptarGroup's strategy to broaden service portfolio for pharmaceutical and biotech customers.

Also, AptarGroup has announced the appointment of leadership positions in certain segments.

Recently, AptarGroup signed an agreement to acquire 49% equity interest in three related BTY companies in China, in a bid to capitalize on the high-growth Asian color cosmetics market.

Outlook

AptarGroup expects weaker fourth-quarter 2019 results compared with the solid performance witnessed in the year-ago period. Customers in the Beauty + Home segment are destocking, due to political and economic uncertainties, while the Pharma segment's expansion in the allergy sector is expected to revert to a more normalized growth rate.

AptarGroup now projects adjusted earnings per share (EPS) for fourth-quarter 2019 between 74 cents and 80 cents. It also reflects a higher tax rate of 30-32%. The company reported adjusted EPS of 92 cents in the prior-year quarter.

Quarter Ending **09/2019**

Report Date	Oct 31, 2019
Sales Surprise	0.26%
EPS Surprise	-2.11%
Quarterly EPS	0.93
Annual EPS (TTM)	4.07

Valuation

AptarGroup's shares are up 15.1% over the trailing 12-month period. Stocks in the Zacks Containers – Paper and Packaging industry are down 27.8% while the Zacks Industrial Products sector are up 9.3% over the past year.

The S&P 500 index has gained 19.7% in the past year.

The stock is currently trading at 27.31X forward 12-month earnings, which compares with 15.75X for the Zacks sub-industry, 18.06X for the Zacks sector and 18.89X for the S&P 500 index.

Over the past five years, the stock has traded as high as 29.37X and as low as 20.39X, with a 5-year median of 23.41X.

Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$124 price target reflects 28.95X forward 12-month earnings.

The table below shows summary valuation data for ATR:

Valuation Multiples - ATR					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	27.31	15.75	18.06	18.89
	5-Year High	29.37	18.95	19.91	19.34
	5-Year Low	20.39	7.13	12.6	15.18
	5-Year Median	23.41	16.85	16.58	17.46
P/S F12M	Current	2.49	2.43	2.72	3.5
	5-Year High	2.64	5.06	2.74	3.5
	5-Year Low	1.57	1.46	1.51	2.54
	5-Year Median	2.09	1.79	1.98	3
EV/EBITDA TTM	Current	14.3	23.27	16.45	11.95
	5-Year High	16.47	27.66	17.44	12.85
	5-Year Low	9.26	12.71	10.98	8.49
	5-Year Median	12.35	15.33	14.74	10.66

As of 02/04/2020

Industry Analysis Zacks Industry Rank: Bottom 24% (194 out of 255)



Top Peers

Berry Global Group, Inc. (BERY)	Outperform
Graphic Packaging Holding Company (GPK)	Neutral
Sealed Air Corporation (SEE)	Neutral
Silgan Holdings Inc. (SLGN)	Neutral
Sonoco Products Company (SON)	Neutral
UFP Technologies, Inc. (UFPT)	Neutral
Greif, Inc. (GEF)	Underperform
Packaging Corporation of America (PKG)	Underperform

Industry Comparison Industry: Containers - Paper And Packaging				Industry Peers		
	ATR Neutral	X Industry	S&P 500	CCK Neutral	GEF Underperform	SON Neutral
VGM Score	B	-	-	D	A	A
Market Cap	7.48 B	5.63 B	24.31 B	10.31 B	2.00 B	5.85 B
# of Analysts	7	4	13	6	3	4
Dividend Yield	1.23%	2.94%	1.78%	0.00%	4.25%	2.94%
Value Score	D	-	-	C	A	B
Cash/Price	0.04	0.04	0.04	0.03	0.04	0.02
EV/EBITDA	17.72	10.20	13.98	11.73	7.89	10.20
PEG Ratio	2.70	1.90	2.01	1.99	1.38	3.57
Price/Book (P/B)	4.81	2.94	3.29	5.10	1.68	3.16
Price/Cash Flow (P/CF)	17.03	7.97	13.58	9.17	4.54	10.11
P/E (F1)	27.87	16.01	18.82	13.90	11.01	16.04
Price/Sales (P/S)	2.60	1.08	2.66	0.88	0.43	1.08
Earnings Yield	3.62%	6.24%	5.30%	7.19%	9.08%	6.23%
Debt/Equity	0.73	0.88	0.71	4.06	2.23	0.64
Cash Flow (\$/share)	6.87	3.78	6.92	8.29	9.12	5.78
Growth Score	A	-	-	D	A	B
Hist. EPS Growth (3-5 yrs)	8.42%	11.71%	10.80%	10.60%	15.00%	7.80%
Proj. EPS Growth (F1/F0)	7.44%	7.44%	7.40%	7.08%	-5.05%	3.08%
Curr. Cash Flow Growth	14.87%	16.72%	10.22%	41.18%	31.14%	15.51%
Hist. Cash Flow Growth (3-5 yrs)	4.89%	8.06%	8.55%	15.14%	8.37%	5.80%
Current Ratio	2.04	1.60	1.21	1.12	1.51	1.20
Debt/Capital	42.11%	49.47%	42.91%	80.23%	69.30%	38.89%
Net Margin	8.16%	4.07%	11.79%	4.37%	3.72%	5.99%
Return on Equity	17.85%	20.02%	17.24%	39.58%	20.02%	20.08%
Sales/Assets	0.83	0.93	0.55	0.76	0.93	1.11
Proj. Sales Growth (F1/F0)	3.76%	4.07%	4.10%	1.05%	6.29%	1.95%
Momentum Score	B	-	-	B	B	D
Daily Price Chg	-0.25%	0.67%	1.49%	1.90%	0.63%	1.14%
1 Week Price Chg	-1.37%	-3.73%	-2.60%	-1.29%	-7.84%	-2.77%
4 Week Price Chg	3.58%	-0.68%	0.51%	7.83%	-2.66%	0.41%
12 Week Price Chg	8.07%	0.18%	4.44%	1.71%	-1.00%	0.36%
52 Week Price Chg	15.71%	4.51%	14.65%	47.84%	6.67%	0.34%
20 Day Average Volume	219,924	200,196	1,935,862	984,129	180,467	361,961
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-0.74%	0.00%	0.00%	-0.39%	0.00%	-0.89%
(F1) EPS Est 12 week change	-0.74%	-0.74%	-0.10%	-0.39%	-6.47%	0.86%
(Q1) EPS Est Mthly Chg	1.17%	0.00%	0.00%	1.82%	0.00%	0.00%

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	D
Growth Score	A
Momentum Score	B
VGM Score	B

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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