

AptarGroup, Inc. (ATR)

\$118.65 (As of 08/05/20)

Price Target (6-12 Months): **\$126.00**

Long Term: 6-12 Months

Zacks Recommendation:
Outperform

(Since: 08/05/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

1-Strong Buy

Zacks Style Scores:

VGM:D

Value: F

Growth: C

Momentum: C

Summary

AptarGroup projects adjusted earnings per share for third-quarter 2020 in the range of 80-88 cents. Increasing demand for pharmaceutical products on account of the coronavirus pandemic is likely to drive Pharma segment in the near term. In the wake of the ongoing uncertainty related to the pandemic, the company has undertaken several cost control measures, which will help sustain margins. The company is also poised to grow on its ongoing business-transformation plan to aid top-line growth, boost operational excellence, enhance approach to innovation and improve organizational effectiveness. Also, the company's strategy to grow via acquisitions to expand the scope of technologies, geographic presence and product offerings will also drive growth. Continued efforts to launch innovative product offerings also remain a catalyst.

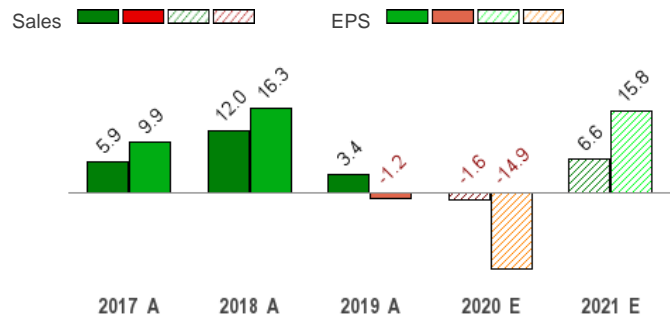
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$124.00 - \$79.84
20 Day Average Volume (sh)	292,342
Market Cap	\$7.6 B
YTD Price Change	2.4%
Beta	0.63
Dividend / Div Yld	\$1.44 / 1.2%
Industry	Containers - Paper and Packaging
Zacks Industry Rank	Top 8% (19 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	17.7%
Last Sales Surprise	6.8%
EPS F1 Est- 4 week change	6.3%
Expected Report Date	10/29/2020
Earnings ESP	-0.5%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					3,001 E
2020	722 A	699 A	699 E	698 E	2,814 E
2019	744 A	743 A	701 A	671 A	2,860 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021					\$3.89 E
2020	\$0.93 A	\$0.80 A	\$0.84 E	\$0.80 E	\$3.36 E
2019	\$1.07 A	\$1.15 A	\$0.93 A	\$0.80 A	\$3.95 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 08/05/2020. The reports text is as of 08/06/2020.

Overview

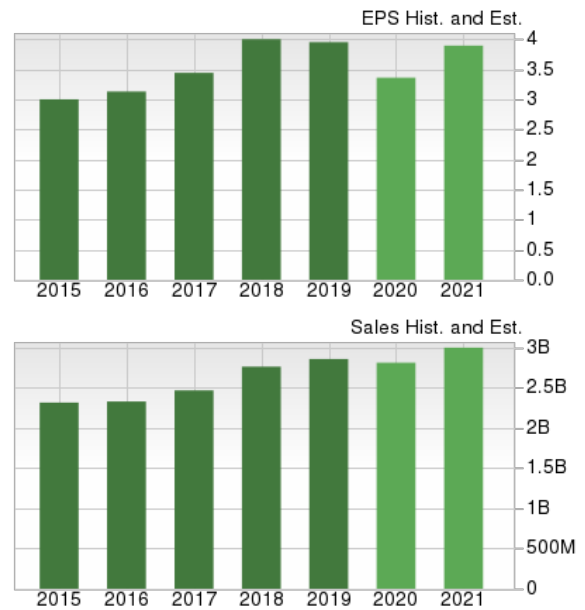
Headquartered in Crystal Lake, IL, AptarGroup is a global supplier of a broad range of innovative dispensing, sealing and active packaging solutions for the beauty, personal care, home care, prescription drug, consumer health care, injectables, food and beverage markets. Its main products include dispensing 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 (47% of AptarGroup's sales in fiscal 2019) 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 (38%) 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 (15%) 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:

- ▲ AptarGroup is focused to grow on 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 streamlining the Beauty + Home segment. In sync with the plan, AptarGroup has decided to close Stratford and Torrington, CT sites by the end of the current year and consolidate this production capacity into other AptarGroup's existing North American facilities. This measure will support North American Beauty + Home customers more efficiently while focusing on long-term, profitable growth.
- ▲ AptarGroup remains committed to expand its business through acquisitions to expand the scope of technologies, geographic presence and product offerings. AptarGroup completed strategic equity investments in BTY, a leading Chinese provider of decorative and complete color cosmetics packaging solutions. The acquisition will help to capitalize on the high-growth Asian color cosmetics market. The company has also acquired Fusion Packaging, a leader in high quality, prestige airless and color cosmetics packaging, and conception-to-launch turnkey solutions for the North American beauty market. Both acquisitions will be accretive to the Beauty and Home segment's margin. It has also entered into a partnership with digital platform provider, Sonmol, to bring to market new connected platforms for respiratory-related therapies. 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 also 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).
- ▲ As of Jun 30, 2020, AptarGroup had available cash and equivalents of approximately \$248 million. Total debt to total capital ratio was 0.44 as of Jun 30, 2020. The company's times interest earned ratio has been improving over the past few years, and is currently at 9.3 and much higher than the industry's times interest earned ratio of 3.9. This indicates that the company is in a position to fulfill its debt obligations.
- ▲ The Pharma segment witnessed sales growth across each end market with particularly strong growth in the injectables and active packaging businesses. This is likely to persist amid the coronavirus pandemic. Notably, the segment has identified over 150 potential projects as a result of the COVID-19 pandemic and continues to receive inquiries from the healthcare industry on an almost-daily basis. In the wake of the ongoing uncertainty related to the COVID-19, the company has undertaken several cost control measures, which include reducing temporary labor headcount, regional and site-specific furloughs and wage reductions, elimination of business travel. The company has also cut down on discretionary spending and modifying production schedules. This will help sustain margins despite low volumes.
- ▲ AptarGroup is poised to gain from innovative product launches. In the Pharma segment, AptarGroup's active material sciences technologies is featured on U.S FDA approved implantable rechargeable device used to treat urinary and bowel dysfunction by Axonics Modulation Technologies. Also, AptarGroup's multidose nasal pump features in a new drug application Gimoti — the first and only U.S FDA approved nasally administered treatment for relieving symptoms of acute and recurrent diabetic gastroparesis. Its ophthalmic squeeze dispenser is now featured on allergy, anti-inflammatory and dry eye products by Synthesis, which is part of Abbott in Latin America. In the Beauty + Home segment, AptarGroup's spray pump featured on a line of Suave hand sanitizer sprays by Unilever. The company's closure and SimpliSqueeze valve was chosen by Dial for the innovative body wash and easy squeeze stand-up pouch. In the Food + Beverage segment, the company's closure with SimpliSqueeze valve has been chosen by a major peanut butter brand and also featured on a new line of signature sauces and condiments of Chik-Fil-A in the United States. In the beverage market, sports closure has been used in a new sports drinks by Xiaoyangren in China.

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.

Risks

- The Beauty + Home segment will continue to be negatively impacted by reduced orders from customers providing prestige beauty products. Beauty products are sold via duty free travel and retail stores. Consequently, the restrictions on air travel has impacted the beauty market. Also, many beauty retailers have shut down in response to government mandates to stem the spread of the coronavirus. Notably beauty products account for 24% of the company's revenues. Increased demand for dispensing solutions for hand sanitizers and cleaners has not been enough to offset declines in the beauty market and declines in personal care categories including haircare and sunscreen. The Food + Beverage segment will continue to be negatively impacted by decrease in food service and on-the-go beverage closure sales due to the COVID-19 crisis.
 - AptarGroup now projects adjusted EPS for third-quarter 2020 between 80 cents and 88 cents. The mid-point of the guided range reflects a year-over-year decline of 10% from earnings per share of 93 cents reported in the prior-year quarter. The guidance factors in resumption of air travel, the reopening of retail and revival in consumer spending confidence. The recent spike in COVID-19 cases across several regions of the world has led to economic uncertainty in some of the company's markets.
 - 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.
 - AptarGroup expects to incur implementation costs of approximately \$125 million related to business-transformation plan in the Beauty + Home segment. 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.
-

Last Earnings Report

AptarGroup's Earnings & Sales Beat Estimates in Q2

AptarGroup delivered second-quarter 2020 adjusted earnings per share of 80 cents, which surpassed the Zacks Consensus Estimate of 68 cents. However, the bottom line declined 30% year over year.

On a reported basis, earnings came in at 63 cents per share compared with the year-ago quarter's \$1.12 per share.

Total revenues declined 6% year over year to \$699.3 million in the June-end quarter due to negative impacts of the coronavirus pandemic on the beauty and beverage markets, changes in currency exchange rates and passing on lower resin costs. These negatives were offset by contributions from acquisitions. The top line beat the Zacks Consensus Estimate of \$655 million. Core sales, excluding currency and acquisition effects, dropped 6% year over year. Sales growth witnessed in the Pharma segment was partly offset by declines in Beauty + Home and Food + Beverage segments.

Operational Update

Cost of sales was down 5.8% year over year to \$442 million. Gross profit fell 6% year over year to \$257.3 million. Gross margin came in at around 37% during the second quarter, unchanged from the prior-year quarter's figure.

Selling, research, development and administrative expenses flared up 7.9% year over year to \$123 million. Adjusted operating income went down 26.5% year over year to \$83 million. Operating margin came in at 11.8% in the quarter, down from the year-ago quarter's 15.2%. Adjusted EBITDA declined 14.3% year over year to \$137 million in the April-June quarter.

Segmental Performance

Total revenues in the Beauty + Homes segment declined 12.4% year over year to \$299.8 million. Adjusted operating income in the second quarter plummeted 97.4% year over year to \$0.7 million.

Total revenues in the Pharma segment rose 6.7% year over year to \$301 million. Adjusted operating income came in at \$86 million in the June-end quarter, flat year over year.

Total revenues in the Food + Beverage segment were down 17.6% year over year to \$98 million. Operating income slid 30.1% year over year to \$8.6 million.

Financial Performance

AptarGroup reported cash and cash equivalents of \$247.6 million as of Jun 30, 2020, up from \$242 million as of Dec 31, 2019. The company generated \$228 million of cash flow from operations in the first half of the current year compared with \$221 million in the first half of 2019. As of Jun 30, 2020, long-term debt was approximately \$1,083 million, down from \$1,085 million as of Dec 31, 2019.

Outlook

The company expects to witness economic uncertainty in some of its markets owing to the recent spike in coronavirus cases in many regions of the world. However, AptarGroup expects gradual improvement in the second half of the year based on the resumption of travel activity, the reopening of retail stores and consumer spending. Considering these factors, the company anticipates third-quarter adjusted earnings per share in the range of 80 cents to 88 cents.

Quarter Ending **06/2020**

Report Date	Jul 30, 2020
Sales Surprise	6.76%
EPS Surprise	17.65%
Quarterly EPS	0.80
Annual EPS (TTM)	3.46

Valuation

AptarGroup's shares have gone up 2.4% in the year-to-date period and down 2.7% over the trailing 12-month period. Stocks in the Zacks Containers – Paper and Packaging industry and the Zacks Industrial Products sector are down 5.2% and 4.8% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry are down 0.1% while the sector are up 9.5%.

The S&P 500 index is up 2.6% in the year-to-date period and up 15.7% in the past year.

The stock is currently trading at 33.54X forward 12-month earnings, which compares with 15.70X for the Zacks sub-industry, 21.38X for the Zacks sector and 22.58X for the S&P 500 index.

Over the past five years, the stock has traded as high as 34.35X and as low as 20.39X, with a 5-year median of 23.76X.

Our Outperform recommendation indicates that the stock will perform better than the market. Our \$126 price target reflects 35.63X 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	33.54	15.7	21.38	22.58
	5-Year High	34.35	18.95	21.53	22.58
	5-Year Low	20.39	7.13	12.55	15.25
	5-Year Median	23.76	16.11	17.15	17.55
P/S F12M	Current	2.69	2.45	2.88	3.63
	5-Year High	2.73	5.06	2.88	3.63
	5-Year Low	1.69	1.46	1.52	2.53
	5-Year Median	2.13	1.82	2.03	3.04
EV/EBITDA TTM	Current	15.6	17.47	16.94	12.8
	5-Year High	16.47	28.56	17.46	12.85
	5-Year Low	9.59	12.28	10.82	8.24
	5-Year Median	12.68	15.59	14.94	10.89

As of 08/05/2020

Industry Analysis Zacks Industry Rank: Top 8% (19 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Graphic Packaging Holding Company (GPK)	Outperform	1
Silgan Holdings Inc. (SLGN)	Outperform	1
Amcor PLC (AMCR)	Neutral	2
Greif, Inc. (GEF)	Neutral	3
Packaging Corporation of America (PKG)	Neutral	3
Sealed Air Corporation (SEE)	Neutral	3
Sonoco Products Company (SON)	Neutral	3
UFP Technologies, Inc. (UFPT)	Neutral	3

Industry Comparison Industry: Containers - Paper And Packaging				Industry Peers		
	ATR	X Industry	S&P 500	CCK	GEF	GPK
Zacks Recommendation (Long Term)	Outperform	-	-	Outperform	Neutral	Outperform
Zacks Rank (Short Term)	1	-	-	2	3	1
VGM Score	D	-	-	A	A	A
Market Cap	7.63 B	5.31 B	22.93 B	9.86 B	1.80 B	4.04 B
# of Analysts	7	6	14	7	4	9
Dividend Yield	1.22%	2.17%	1.76%	0.00%	4.75%	2.07%
Value Score	F	-	-	A	A	A
Cash/Price	0.03	0.04	0.07	0.04	0.04	0.02
EV/EBITDA	14.89	8.84	13.16	10.51	7.91	7.38
PEG Ratio	3.42	3.02	2.99	2.82	1.07	0.55
Price/Book (P/B)	4.64	2.75	3.20	4.44	1.58	1.99
Price/Cash Flow (P/CF)	16.60	7.98	12.45	8.23	4.07	5.95
P/E (F1)	35.31	15.92	21.78	14.09	10.74	13.85
Price/Sales (P/S)	2.73	1.02	2.47	0.87	0.38	0.64
Earnings Yield	2.84%	6.27%	4.33%	7.10%	9.30%	7.24%
Debt/Equity	0.69	1.29	0.77	3.67	2.52	1.49
Cash Flow (\$/share)	7.13	3.82	6.94	8.88	9.12	2.44
Growth Score	C	-	-	B	A	A
Hist. EPS Growth (3-5 yrs)	6.58%	11.82%	10.46%	9.93%	15.70%	5.77%
Proj. EPS Growth (F1/F0)	-14.94%	-5.77%	-7.14%	1.59%	-12.82%	20.31%
Curr. Cash Flow Growth	5.66%	7.93%	5.47%	7.40%	31.14%	3.10%
Hist. Cash Flow Growth (3-5 yrs)	5.76%	7.51%	8.55%	12.67%	8.37%	6.65%
Current Ratio	1.62	1.48	1.32	1.15	1.48	1.27
Debt/Capital	40.81%	58.26%	44.59%	78.59%	71.83%	60.14%
Net Margin	7.24%	5.06%	10.15%	4.28%	3.60%	1.97%
Return on Equity	14.41%	19.35%	14.46%	32.53%	20.53%	14.13%
Sales/Assets	0.76	0.86	0.51	0.73	0.86	0.85
Proj. Sales Growth (F1/F0)	-1.59%	-0.81%	-1.68%	-3.05%	-0.94%	4.49%
Momentum Score	C	-	-	D	B	F
Daily Price Chg	-0.22%	0.47%	0.59%	0.72%	2.21%	1.05%
1 Week Price Chg	-3.07%	-3.57%	0.14%	1.24%	-7.37%	-2.99%
4 Week Price Chg	4.81%	5.20%	5.31%	9.66%	9.06%	3.13%
12 Week Price Chg	15.56%	17.05%	19.84%	27.75%	31.26%	16.75%
52 Week Price Chg	-2.71%	-0.29%	2.73%	13.32%	10.89%	-0.82%
20 Day Average Volume	292,342	224,270	2,098,555	992,823	156,198	3,186,636
(F1) EPS Est 1 week change	6.14%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	6.33%	0.18%	1.10%	3.66%	-0.72%	9.28%
(F1) EPS Est 12 week change	6.16%	0.25%	1.04%	3.54%	-0.14%	9.31%
(Q1) EPS Est Mthly Chg	5.36%	0.00%	0.39%	1.87%	0.00%	15.04%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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	F
Growth Score	C
Momentum Score	C
VGM Score	D

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.

Disclosures

This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock. The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page. Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment. This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time. ZIR is not a broker-dealer. ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients. Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

No part of this report can be reprinted, republished or transmitted electronically without the prior written authorization of ZIR.