

AptarGroup, Inc. (ATR)

\$102.42 (As of 05/13/20)

Price Target (6-12 Months): **\$109.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 04/19/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: D

Growth: A

Momentum: C

Summary

AptarGroup's first-quarter 2020 adjusted earnings per share (EPS) and revenues both declined year over year but beat the respective Zacks Consensus Estimate. The company projects adjusted EPS for second-quarter 2020 at 58-73 cents. The mid-point of the range reflects a year-over-year decline of 43% as the company expects the impact of the COVID-19 pandemic to be more pronounced on its second quarter results than the first. Increasing demand for pharmaceutical products on account of the coronavirus pandemic and innovative product launches is likely to drive Pharma segment in the near term. However, weak end markets owing to COVID-19 impact will hurt the Beauty + Home and Food + Beverage segments. Nevertheless, the company will gain on its ongoing business-transformation plan, cost control efforts, acquisitions and innovative product offerings.

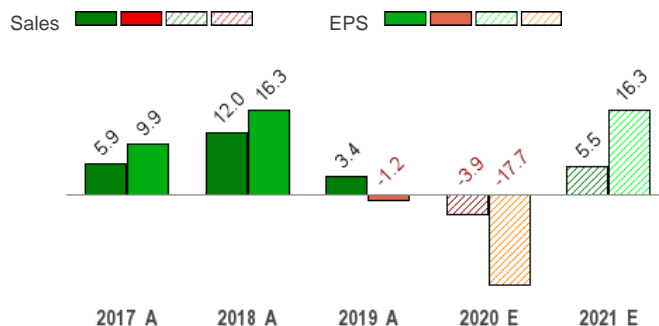
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$126.20 - \$79.84
20 Day Average Volume (sh)	376,441
Market Cap	\$6.6 B
YTD Price Change	-11.4%
Beta	0.63
Dividend / Div Yld	\$1.44 / 1.4%
Industry	Containers - Paper and Packaging
Zacks Industry Rank	Top 26% (65 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	5.7%
Last Sales Surprise	0.8%
EPS F1 Est- 4 week change	-13.2%
Expected Report Date	07/29/2020
Earnings ESP	0.0%
P/E TTM	26.9
P/E F1	31.5
PEG F1	3.1
P/S TTM	2.3

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					2,899 E
2020	722 A	655 E	671 E	683 E	2,749 E
2019	744 A	743 A	701 A	671 A	2,860 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021					\$3.78 E
2020	\$0.93 A	\$0.70 E	\$0.82 E	\$0.82 E	\$3.25 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 05/13/2020. The reports text is as of 05/14/2020.

Overview

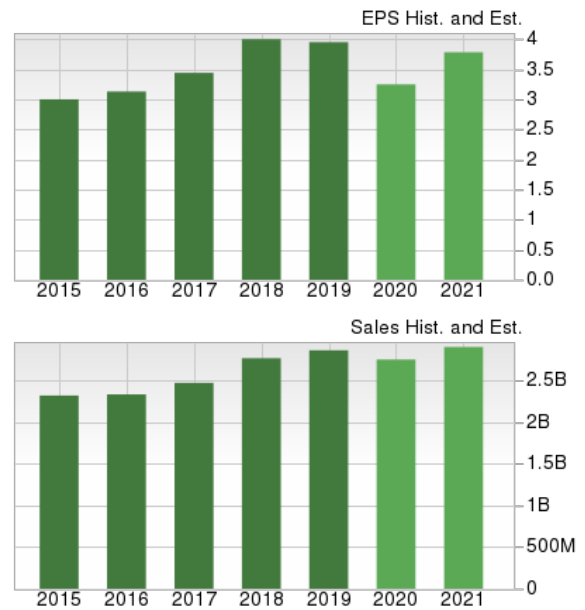
Headquartered in Crystal Lake, IL, AptarGroup is a global supplier of a broad range of innovative dispensing, sealing and active packaging solutions for the beauty, personal care, home care, prescription drug, consumer health care, injectables, food and beverage markets. Its main products include dispensing 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 Mar 31, 2020, AptarGroup had available cash and equivalents of approximately \$411 million with the capacity to borrow under existing revolving credit facilities up to an additional approximately \$265 million. The company's total debt stood at \$1.4 billion with \$56 million maturing in 2020 and 2021. Total debt to total capital ratio was 0.43 as of Mar 31, 2020, much lower than the industry's 0.73. Further, the company's times interest earned ratio has been improving over the past few years, and is currently at 10.5 and is much higher than the industry's times interest earned ratio of 3.6. 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.
- ▲ AptarGroup is poised to gain from innovative product launches. In the Pharma segment, AptarGroup's PureHale respiratory device was chosen by Blairex Laboratories for their new Breathe Free Essentials brand. The PureHale system, unlike traditional nebulizers, does not require batteries or the prefilling of any reservoir and can be used on the go. AptarGroup has submitted an Emergency Use Authorization request to the FDA for N95 respirator decontamination using Aptar's ActivShield materials and technology. In the Beauty + Home segment, spray actuator featured on Lysol Neutra Air Disinfectant spray. It postconsumer recycled resins, closures and spray were featured on a line of Wildwash pet care products. In the Food + Beverage segment, the company supported Coca-Cola's Powerade product line with a new zero-sugar beverage that's features AptarGroup's sport closure.
- ▲ 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 business-transformation plan to drive top-line growth and improve organizational effectiveness. Innovative product launches and acquisitions will also fuel growth.

Reasons To Sell:

- ▼ The Beauty + Home segment will continue to be negatively impacted by reduced orders from customers providing prestige beauty products. The travel retail industry, which is a significant part of the beauty market, is likely to have been affected. 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's segment's results will continue to bear the impact of the coronavirus outbreak on its end markets, particularly in the Beauty + Home and Food + Beverage segments.
- ▼ AptarGroup now projects adjusted earnings per share (EPS) for second-quarter 2020 between 58 cents and 73 cents. The mid-point of the guided range reflects a year-over-year decline of 43% from the earnings per share of \$1.15 reported in the prior-year quarter. The company expects the impact of the COVID-19 pandemic to be more pronounced on second-quarter results compared with the first quarter. The results of Beauty + Home segment are expected to be significantly impacted by continued softness across each end market owing to the effects of COVID-19. The Food + Beverage segment is anticipated to see continued softness in the on-the-go beverage market primarily related to COVID-19 and the impact from passing on lower resin costs. The Pharma segment will face difficult comparisons in the quarter given the exceptional growth in the second quarter of 2019.
- ▼ 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 \$110 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 Top Estimates in Q1

AptarGroup delivered first-quarter 2020 adjusted earnings per share of 93 cents, surpassing the Zacks Consensus Estimate of 88 cents. However, the bottom line declined 11% year over year.

On a reported basis, earnings came in at 84 cents per share compared with the year-ago quarter's 96 cents.

Total revenues declined 3% year over year to \$722 million in the first quarter due to changes in currency exchange rates, passing on lower resin costs and impact of the coronavirus outbreak.

The top line beat the Zacks Consensus Estimate of \$716 million. Core sales, excluding currency and acquisition effects, dipped 2%. Core sales growth witnessed in the Pharma segment on strong growth in the injectables and active packaging businesses. This was offset by decreases in core sales in other segments due to unfavorable impacts of the coronavirus pandemic.

Quarter Ending **03/2020**

Report Date	Apr 30, 2020
Sales Surprise	0.76%
EPS Surprise	5.68%
Quarterly EPS	0.93
Annual EPS (TTM)	3.81

Operational Update

Cost of sales was down 3.8% to \$451 million from the \$469 million reported in the year-ago quarter. Gross profit edged down 1.5% year over year to \$271 million. Gross margin came in at 37.5% during the first quarter, down from the prior-year quarter's 37%.

Selling, research, development and administrative expenses flared up 4% year over year to \$126 million. Adjusted operating income went down 12% year over year to \$94 million. Operating margin came in at 13% in the quarter, down from the year-ago-ago quarter's 14%. Adjusted EBITDA declined 6.5% year over year to \$144 million in the first quarter.

Segmental Performance

Total revenues in the Beauty + Homes segment declined 11.6% year over year to \$325 million. Adjusted operating income in the first quarter plummeted 56% year over year to \$14 million.

Total revenues in the Pharma segment rose 8.8% year over year to \$297 million. Adjusted operating income increased to \$91 million in the March-end quarter from the prior-year quarter's \$82 million.

Total revenues in the Food + Beverage segment were down 4% year over year to \$99.8 million. Operating income slid 25% year over year to \$6 million.

Financial Performance

AptarGroup reported cash and cash equivalents of \$410.8 million as of Mar 31, 2020, up from \$242 million as of Dec 31, 2019. The company generated \$85 million of cash flow from operations in the reported quarter compared with the prior-year quarter's \$78 million. As of Mar 31, 2019, long-term debt was approximately \$1,076 million, down from \$1,085 million as of Dec 31, 2019.

Outlook

The company expects second-quarter performance to be impacted by near-term uncertainties related to the coronavirus pandemic. The Beauty + Home segment is expected to be significantly affected by continued softness across its end markets. In addition, the Food + Beverage segment might see continued softness in the on-the-go beverage market, primarily related to COVID-19 and the impact from passing on lower resin costs. Considering these factors, the company anticipates second-quarter adjusted earnings per share in the range of 58 cents to 73 cents.

Valuation

AptarGroup's shares are down 9.6% over the trailing 12-month period. Stocks in the Zacks Containers – Paper and Packaging industry and the Zacks Industrial Products sector are down 43.0% and 20.0% over the past year, respectively.

The S&P 500 index has lost 1.4% in the past year.

The stock is currently trading at 29.734X forward 12-month earnings, which compares with 13.70X for the Zacks sub-industry, 17.95X for the Zacks sector and 20.44X for the S&P 500 index.

Over the past five years, the stock has traded as high as 31.30X and as low as 20.39X, with a 5-year median of 23.59X.

Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$109 price target reflects 31.64X 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	29.73	13.7	17.95	20.44
	5-Year High	31.3	18.95	19.93	20.79
	5-Year Low	20.39	7.13	12.55	15.19
	5-Year Median	23.59	16.43	16.65	17.45
P/S F12M	Current	2.34	2.06	2.31	3.18
	5-Year High	2.64	5.06	2.72	3.44
	5-Year Low	1.6	1.46	1.52	2.54
	5-Year Median	2.11	1.82	1.99	3.02
EV/EBITDA TTM	Current	12.7	15.33	13.87	10.2
	5-Year High	16.47	28.27	17.37	12.86
	5-Year Low	9.21	12.3	10.8	8.28
	5-Year Median	12.56	15.54	14.76	10.77

As of 05/13/2020

Industry Analysis Zacks Industry Rank: Top 26% (65 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Silgan Holdings Inc (SLGN)	Outperform	1
Berry Global Group Inc (BERY)	Neutral	2
Greif Inc (GEF)	Neutral	4
Graphic Packaging Holding Company (GPK)	Neutral	2
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

	ATR	X Industry	S&P 500	CCK	GEF	SON
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	4	3
VGM Score	B	-	-	C	C	B
Market Cap	6.57 B	4.46 B	18.76 B	7.71 B	1.36 B	4.46 B
# of Analysts	7	5	14	6	4	5
Dividend Yield	1.41%	2.42%	2.23%	0.00%	6.23%	3.87%
Value Score	D	-	-	C	B	B
Cash/Price	0.06	0.05	0.06	0.09	0.06	0.02
EV/EBITDA	12.74	8.04	11.39	9.37	7.34	8.04
PEG Ratio	3.00	2.66	2.54	1.62	0.82	3.04
Price/Book (P/B)	4.14	2.25	2.56	3.78	1.12	2.54
Price/Cash Flow (P/CF)	14.36	7.39	10.04	6.44	3.10	7.46
P/E (F1)	31.01	14.12	18.48	11.33	8.17	13.66
Price/Sales (P/S)	2.32	0.84	1.91	0.66	0.28	0.84
Earnings Yield	3.17%	7.12%	5.09%	8.82%	12.25%	7.31%
Debt/Equity	0.71	1.39	0.75	4.28	2.45	0.68
Cash Flow (\$/share)	7.13	3.81	7.01	8.88	9.12	5.96
Growth Score	A	-	-	D	C	B
Hist. EPS Growth (3-5 yrs)	7.69%	12.24%	10.82%	10.51%	15.73%	8.75%
Proj. EPS Growth (F1/F0)	-17.76%	-2.88%	-10.51%	-1.11%	-12.69%	-7.88%
Curr. Cash Flow Growth	5.66%	9.13%	5.83%	7.40%	31.14%	3.38%
Hist. Cash Flow Growth (3-5 yrs)	5.76%	6.65%	8.52%	12.67%	8.37%	5.30%
Current Ratio	1.70	1.70	1.27	1.31	1.59	1.11
Debt/Capital	41.47%	60.74%	44.25%	81.06%	71.16%	40.36%
Net Margin	8.26%	4.32%	10.59%	4.24%	3.61%	5.61%
Return on Equity	16.05%	19.77%	16.36%	35.65%	19.77%	20.13%
Sales/Assets	0.79	0.87	0.54	0.75	0.87	1.06
Proj. Sales Growth (F1/F0)	-3.86%	0.00%	-2.55%	-2.68%	1.62%	-2.80%
Momentum Score	C	-	-	A	C	B
Daily Price Chg	-1.47%	-1.35%	-2.85%	-3.65%	-1.22%	-4.18%
1 Week Price Chg	1.31%	2.22%	3.23%	0.88%	-8.20%	1.74%
4 Week Price Chg	1.48%	-0.95%	-0.28%	-6.29%	-8.75%	-8.73%
12 Week Price Chg	-10.95%	-16.74%	-23.80%	-27.50%	-31.99%	-21.34%
52 Week Price Chg	-9.55%	-21.11%	-13.31%	-5.43%	-25.42%	-29.55%
20 Day Average Volume	376,441	290,179	2,552,088	1,251,276	203,916	507,211
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	-2.12%	0.00%
(F1) EPS Est 4 week change	-13.21%	0.00%	-6.15%	-4.14%	-2.12%	-7.46%
(F1) EPS Est 12 week change	-23.20%	-5.71%	-16.21%	-7.79%	-8.05%	-11.09%
(Q1) EPS Est Mthly Chg	-35.03%	-7.02%	-12.28%	-13.21%	-7.02%	-18.82%

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	D
Growth Score	A
Momentum Score	C
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.

Disclosures

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