

AptarGroup, Inc. (ATR)

\$102.40 (As of 02/27/20)

Price Target (6-12 Months): **\$87.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 02/26/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

5-Strong Sell

Zacks Style Scores:

VGM:D

Value: F

Growth: B

Momentum: D

Summary

AptarGroup's fourth-quarter 2019 earnings beat the Zacks Consensus Estimate, while sales missed the same. Both top and bottom lines declined year over year. It projects first-quarter adjusted earnings per share at 85-93 cents compared with earnings per share of \$1.07 reported in the prior-year quarter. The Beauty + Home segment's results in the current quarter are expected to be impacted by current macroeconomic uncertainties and the impact of the coronavirus outbreak. The travel retail industry, which is significant part of the beauty market, is also likely to be affected. The Food + Beverage segment's Asian business is also likely to bear the brunt. Further, AptarGroup expects to incur higher implementation costs related to business-transformation plan in the segment. This, in turn, will impact the company's margins.

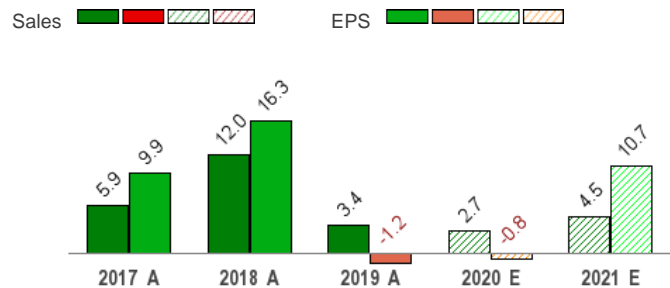
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$126.20 - \$99.21
20 Day Average Volume (sh)	329,788
Market Cap	\$6.6 B
YTD Price Change	-11.4%
Beta	0.66
Dividend / Div Yld	\$1.44 / 1.4%
Industry	Containers - Paper and Packaging
Zacks Industry Rank	Bottom 17% (210 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	1.3%
Last Sales Surprise	-1.0%
EPS F1 Est- 4 week change	-7.4%
Expected Report Date	05/05/2020
Earnings ESP	0.0%
P/E TTM	25.9
P/E F1	26.1
PEG F1	2.5
P/S TTM	2.3

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					3,069 E
2020	723 E	752 E	731 E	712 E	2,938 E
2019	744 A	743 A	701 A	671 A	2,860 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021					\$4.34 E
2020	\$0.89 E	\$1.07 E	\$1.01 E	\$0.91 E	\$3.92 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 02/27/2020. The reports text is as of 02/28/2020.

Overview

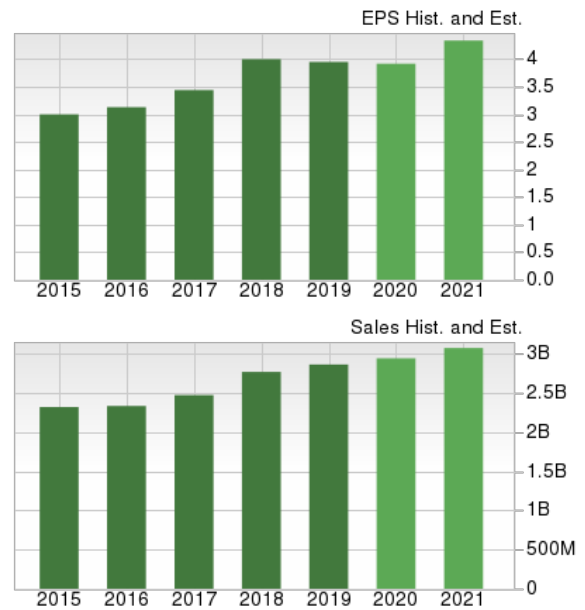
Headquartered in Crystal Lake, IL, AptarGroup is a global supplier of a broad range of innovative dispensing, sealing and active packaging solutions for the beauty, personal care, home care, prescription drug, consumer health care, injectables, food and beverage markets. Its main products include dispensing 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 Sell:

- ▼ AptarGroup now projects adjusted earnings per share (EPS) for first-quarter 2020 between 85 cents and 93 cents compared with earnings per share of \$1.07 reported in the prior-year quarter. It reflects a tax rate of 28-30%. AptarGroup expects weaker first-quarter 2020 results compared with year-ago period. The company's Pharma segment will face difficult comparisons in the ongoing quarter given the exceptional growth last quarter. The Food + Beverage segment's Asian business is likely to bear the brunt of the coronavirus impact.
- ▼ 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 has been offset by weak demand in the personal care market. Customers in the Beauty + Home segment are lowering inventory reductions thanks to current macroeconomic uncertainties. Also, the negative impact of the coronavirus outbreak is likely to dent the segment's results in the current quarter. The travel retail industry, which is a significant part of the beauty market, is likely to have been affected. Notably, core sales to the personal care market were down 9% in 2019 due to the customer destocking. 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.
- ▼ AptarGroup expects to incur implementation costs of approximately \$80 million over the next three years related to business-transformation plan in the Beauty + Home segment. Costs associated with footprint consolidations are currently expected to be around \$20 million. 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 segment's results will be hurt by macroeconomic uncertainties and coronavirus outbreak. Higher tax rate and costs related to its business-transformation plan are also concerns.

Risks

- 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 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. 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).
 - AptarGroup recently closed the previously-announced equity investment 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 entered into an agreement to acquire 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. 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 poised to gain from innovative product launches. In the Pharma segment, Nasal Unidose Device was approved for the first nasal rescue treatment for frequent seizure activity in people with epilepsy for which Noble International designed a patient onboarding kit with trainer device. In 2019, several customers launched new U.S. FDA approved drugs featuring delivery technologies that includes Bidose nasal spray device, Unidose Power System, Nasal Unit Dose Device and Activ-Blister Packaging Solutions. The company also partnered with Lupin Limited to launch India's first connected device for metered-dose inhalers (MDIs), named as ADHERO. This add-on smart device is designed to help patients with chronic respiratory diseases. In the Food + Beverage segment, the company launched newly-redesigned coconut and avocado oil cooking sprays for Aldi North America. Further, increasing trend towards squeezable packaging options provides growth opportunities for the segment.
 - In 2019, the company generated free cash flow of \$272 million, an improvement from \$102 million in the prior year. This was driven by improved results and working capital improvements. The company also continues to lower debt levels. At 2019-end, long-term debt was \$1,085 million, down from \$1,126 million as of Dec 31, 2018. The company also continues to invest in growth.
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Last Earnings Report

AptarGroup Q4 Earnings Beat Estimates, Revenues Miss

Quarter Ending **12/2019**

Report Date	Feb 20, 2020
Sales Surprise	-0.97%
EPS Surprise	1.27%
Quarterly EPS	0.80
Annual EPS (TTM)	3.95

AptarGroup delivered fourth-quarter 2019 adjusted earnings per share of 80 cents, surpassing the Zacks Consensus Estimate of 79 cents. However, the bottom line declined 13% year over year. Notably, core sales improved in several of the company's markets in the quarter including the consumer health care, injectables, active packaging and food markets. However, it was offset by continued inventory reductions by several key customers in the personal care and beauty markets, and passing through of lower resin costs.

On a reported basis, earnings came in at 73 cents per share compared with 62 cents reported the year-ago quarter.

Total revenues declined 2% year over year to \$671 million in the fourth quarter owing to changes in currency exchange rates. The top line missed the Zacks Consensus Estimate of \$678 million. Core sales, excluding currency and acquisition effects, dipped 1% including a negative impact from passing on lower resin costs. Core sales growth in the Pharma segment was negated by decline in core sales in other segments.

Operational Update

Cost of sales was down 5% to \$436 million from the \$458 million reported in the year-ago quarter. Gross profit increased 4% year over year to \$236 million. Gross margin came in at 35.1% during the fourth quarter of 2019, up from 33.2% in the prior-year quarter.

Selling, research, development and administrative expenses inched up 1% year over year to \$108 million. Adjusted operating income went down 12% year over year to \$81.6 million. Operating margin came in at 12.1% in the quarter under review, down from 13.5% in the year-ago-quarter. Adjusted EBITDA declined 7% year over year to \$131 million in the reported quarter.

Segmental Performance

Total revenues in the Beauty + Homes segment declined 7% year over year to \$315 million. Adjusted operating income in the fourth quarter was down 24% year over year to \$17.1 million.

Total revenues in the Pharma segment rose 4% year over year to \$267 million. Adjusted operating income fell 1% year over year to \$76 million in the fourth quarter.

Total revenues in the Food + Beverage segment were down 2% year over year to \$89 million. Operating income plunged 39% year over year to \$2.2 million.

Financial Performance

AptarGroup reported cash and cash equivalents of around \$242 million as of Dec 31, 2019, down from \$262 million as of Dec 31, 2018. The company generated \$514 million of cash flow from operations compared with \$313 million in the prior year. At 2019- end, long-term debt was approximately \$1,085 million, down from \$1,126 million as of Dec 31, 2018.

During the year, AptarGroup's Board raised cash dividend by 6%. This marked the company's 26th consecutive year of dividend hike. Through 2019, AptarGroup has returned \$177 million to shareholders in dividends and share repurchases.

In 2019, AptarGroup expanded services platform for the Pharma segment with acquisitions of leading analytical laboratories, Nanopharm and Gateway Analytical, and training device and patient onboarding expert, Noble International.

2019 Results

AptarGroup reported adjusted earnings per share of \$3.95 in 2019, up 2% from the prior year. Earnings beat the Zacks Consensus Estimate of \$3.94. On a reported basis, earnings per share came in at \$3.66 compared with \$3.00 in 2018.

Sales came in at \$2.86 billion in 2019, up 3% from the previous year. However, the top line fell short of the Zacks Consensus Estimate of \$2.87 billion.

Major Developments Post Q4

Subsequent to the end of the quarter, AptarGroup completed the previously announced equity investment in BTY, a leading Chinese provider of decorative and complete color cosmetics packaging solutions. AptarGroup also announced that it has entered into an agreement to acquire 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.

The company also announced plans to consolidate the North American Beauty + Home footprint. AptarGroup decided to close its Stratford and Torrington, CT sites by the end of 2020 and consolidate this production capacity into other North American facilities. Following the changes, the company expects to be better poised to serve customers efficiently with an aim to drive long-term profitable growth. Estimated costs associated with the footprint consolidations are projected at around \$20 million.

Outlook

AptarGroup expects weaker first-quarter 2020 results compared with year-ago period. Customers in the Beauty + Home segment are lowering inventory reductions thanks to current macroeconomic uncertainties. The negative impact of the coronavirus outbreak is likely to dent the

segment's results. The travel retail industry, which is a significant part of the beauty market, is likely to have been affected.

The Pharma segment will face difficult comparisons in the ongoing quarter given the exceptional growth last quarter. The Food + Beverage segment's Asian business is also likely bear the brunt of the coronavirus impact.

AptarGroup now projects adjusted earnings per share (EPS) for first-quarter 2020 between 85 cents and 93 cents. It reflects a tax rate of 28-30%.

Recent News

AptarGroup to Acquire Fusion Packaging, Grow in Beauty Markets - Feb 14, 2020

AptarGroup has entered into an agreement to acquire Fusion Packaging. The buyout is expected to be accretive to AptarGroup's Beauty + Home segment margins.

Founded in 2004, Fusion Packaging is a leader in high quality, prestige airless and color cosmetics packaging, and conception-to-launch turnkey solutions for the North American beauty market. It employs around 100 people across its headquarters in Dallas, sales and design offices in New York and Los Angeles, and operations in New Jersey and China. Fusion Packaging generated sales of approximately \$80 million in 2019.

This is in sync with AptarGroup's strategy to cater to market demands for fast beauty solutions with differentiated design and decorative offerings. The company is strengthening portfolio by expanding agile design and full-service beauty packaging capabilities. The company will also be able to leverage Fusion Packaging's existing relationships with many global cosmetic and skin care customers and several rapidly growing indie brands.

Fusion Packaging has been growing at double-digit rates over the past few years. The color cosmetics and skin care markets has immense prospects. The buyout will enable AptarGroup to capitalize on these market prospects,. Further, Fusion Packaging's capability in turnkey solutions is especially valuable to indie brands as well as large established customers requiring expeditious launches. Fusion Packaging will complement AptarGroup's North American business. In the future, the company can use this model in Europe and other regions.

Valuation

AptarGroup's shares are up 1.6% over the trailing 12-month period. Stocks in the Zacks Containers – Paper and Packaging industry and the Zacks Industrial Products sector are down 36.5% and 0.3% over the past year, respectively.

The S&P 500 index has gained 10.3% in the past year.

The stock is currently trading at 23.73X forward 12-month earnings, which compares with 13.77X for the Zacks sub-industry, 16.50X for the Zacks sector and 17.03X 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 23.46X.

Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$87 price target reflects 20.16X 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	23.73	13.77	16.5	17.03
	5-Year High	29.37	18.95	19.89	19.34
	5-Year Low	20.39	7.13	12.6	15.18
	5-Year Median	23.46	16.71	16.54	17.45
P/S F12M	Current	2.18	2.12	2.5	3.14
	5-Year High	2.64	5.06	2.74	3.43
	5-Year Low	1.57	1.46	1.51	2.54
	5-Year Median	2.1	1.79	1.99	3.01
EV/EBITDA TTM	Current	13.91	21.52	16.9	12
	5-Year High	16.47	28.21	17.42	12.87
	5-Year Low	9.26	12.26	10.89	8.48
	5-Year Median	12.35	15.08	14.73	10.78

As of 02/27/2020

Industry Analysis Zacks Industry Rank: Bottom 17% (210 out of 254)



Top Peers

Berry Global Group, Inc. (BERY)	Neutral
Greif, Inc. (GEF)	Neutral
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
Packaging Corporation of America (PKG)	Underperform

Industry Comparison Industry: Containers - Paper And Packaging				Industry Peers		
	ATR Underperform	X Industry	S&P 500	CCK Neutral	GEF Neutral	SON Neutral
VGM Score	D	-	-	C	A	B
Market Cap	6.56 B	4.98 B	22.59 B	9.52 B	1.67 B	4.99 B
# of Analysts	7	5	13	6	3	5
Dividend Yield	1.41%	3.26%	1.92%	0.00%	5.10%	3.45%
Value Score	F	-	-	C	A	B
Cash/Price	0.03	0.04	0.04	0.03	0.04	0.03
EV/EBITDA	15.85	8.94	13.29	11.22	7.89	8.87
PEG Ratio	2.53	1.32	1.93	1.83	1.16	3.07
Price/Book (P/B)	4.16	2.56	3.03	4.71	1.36	2.75
Price/Cash Flow (P/CF)	14.36	7.66	12.33	8.47	3.78	8.38
P/E (F1)	26.12	14.29	17.79	12.82	9.26	13.81
Price/Sales (P/S)	2.29	0.93	2.47	0.82	0.35	0.93
Earnings Yield	3.83%	7.01%	5.60%	7.80%	10.81%	7.24%
Debt/Equity	0.73	0.87	0.70	4.06	2.45	0.66
Cash Flow (\$/share)	7.13	3.78	7.02	8.29	9.12	5.95
Growth Score	B	-	-	D	A	B
Hist. EPS Growth (3-5 yrs)	8.28%	11.64%	10.85%	10.68%	15.00%	8.25%
Proj. EPS Growth (F1/F0)	-0.79%	5.10%	6.79%	7.24%	-5.89%	2.32%
Curr. Cash Flow Growth	5.66%	6.79%	6.53%	41.18%	31.14%	3.29%
Hist. Cash Flow Growth (3-5 yrs)	5.76%	6.65%	8.38%	15.14%	8.37%	5.28%
Current Ratio	1.89	1.59	1.22	1.12	1.59	1.08
Debt/Capital	42.05%	50.26%	42.37%	80.23%	71.10%	39.65%
Net Margin	8.47%	4.01%	11.57%	4.37%	3.61%	5.43%
Return on Equity	16.92%	19.51%	16.80%	39.58%	19.77%	19.51%
Sales/Assets	0.82	0.87	0.54	0.76	0.87	1.07
Proj. Sales Growth (F1/F0)	2.74%	2.65%	4.06%	1.45%	6.20%	1.12%
Momentum Score	D	-	-	B	A	D
Daily Price Chg	-2.18%	-2.75%	-0.98%	-5.74%	-6.33%	-3.26%
1 Week Price Chg	-4.02%	0.43%	-0.94%	-1.01%	1.47%	0.67%
4 Week Price Chg	-12.13%	-12.62%	-6.27%	-7.36%	-18.42%	-14.22%
12 Week Price Chg	-8.53%	-16.26%	-3.33%	-7.37%	-20.01%	-16.77%
52 Week Price Chg	0.66%	-7.39%	6.81%	29.38%	-14.18%	-13.84%
20 Day Average Volume	329,788	254,165	2,109,774	992,714	178,543	498,393
(F1) EPS Est 1 week change	-7.36%	0.00%	0.00%	0.00%	-0.89%	-0.71%
(F1) EPS Est 4 week change	-7.36%	-2.20%	-0.08%	0.15%	-0.89%	-2.20%
(F1) EPS Est 12 week change	-8.05%	-1.37%	-0.22%	-0.24%	-7.30%	-1.37%
(Q1) EPS Est Mthly Chg	-11.16%	-0.57%	-0.61%	-16.07%	0.00%	-3.22%

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	B
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

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