

AptarGroup Inc.

Post 4Q: Progress on key fronts means \$154, Buy

Reiterate Rating: BUY | PO: 154.00 USD | Price: 137.78 USD

Key progress points means higher price; Buy ATR

We rate AptarGroup (ATR) a Buy based on its relative valuation versus pharma-pack peers, topline catalysts we see and the potential for margins to improve in the Beauty and Closures segments. Our flash report from yesterday ([see here](#)) has the details from the quarter. Key points for us: (a) After 10% core growth in 2023 including 26% growth in Rx, ATR expects Pharma core growth to remain in the 7-11% range, with momentum in biologics/injectables and other key areas. The pipeline for ATR's proprietary dispensing devices remains strong into 2024 after a record 2023; (b) Without being precise, ATR continues to focus on productivity as a key initiative and expects its Beauty and Closures segments to see continued margin expansion; (c) While Aptar didn't exactly pin a 10% growth target to its 2024 expectations, it seems to have an aspirational, double-digit goal for the year – the important point is that ATR wants to instill bottom-line leverage relative to its traditional, topline story within the organization. We are forecasting 8.8% growth for the year. The company will participate at our Annual Global Ag & Materials Conference in FL, 2/28-29. Call your BofA rep.

Estimates move up 3%, PO to \$154 from \$150

Given the trends coming off of 4Q along with ATR's 1Q guidance and the points discussed above, we increase our estimates to \$5.20 (was \$5.05) in 2024 and \$5.65 (was \$5.50) in 2025. Meantime, our new 2026 estimate is \$6.10. With these changes, our PO increases from \$150 to \$154.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	3.78	4.78	5.20	5.65	6.10
GAAP EPS	3.58	4.25	5.20	5.65	6.10
EPS Change (YoY)	-2.6%	26.5%	8.8%	8.7%	8.0%
Consensus EPS (Bloomberg)			5.05	5.64	6.35
DPS	1.52	1.61	1.80	1.98	2.18
Valuation (Dec)					
P/E	36.4x	28.8x	26.5x	24.4x	22.6x
GAAP P/E	38.5x	32.4x	26.5x	24.4x	22.6x
Dividend Yield	1.1%	1.2%	1.3%	1.4%	1.6%
EV / EBITDA*	15.9x	14.1x	12.6x	12.0x	11.3x
Free Cash Flow Yield*	1.9%	2.9%	3.8%	4.0%	4.5%

* For full definitions of *IQmethod*SM measures, see page 5.

09 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	150.00	154.00
2024E Rev (m)	3,624.5	3,657.8
2025E Rev (m)	3,755.5	3,795.8
2026E Rev (m)	NA	3,940.5
2024E EPS	5.05	5.20
2025E EPS	5.50	5.65
2026E EPS	NA	6.10
2024E EBITDA (m)	749.8	779.2
2025E EBITDA (m)	798.2	817.6
2026E EBITDA (m)	NA	868.5

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Stock Data

Price	137.78 USD
Price Objective	154.00 USD
Date Established	9-Feb-2024
Investment Opinion	B-1-7
52-Week Range	107.89 USD - 134.84 USD
Mrkt Val (mn) / Shares Out (mn)	9,068 USD / 65.8
Free Float	99.4%
Average Daily Value (mn)	46.32 USD
BofA Ticker / Exchange	ATR / NYS
Bloomberg / Reuters	ATR US / ATR.N
ROE (2024E)	14.3%
Net Dbt to Eqty (Dec-2023A)	39.7%
ESGMeter TM	High

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Timestamp: 09 February 2024 02:04PM EST

iQprofileSM AptarGroup Inc.

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	8.1%	9.7%	10.0%	10.0%	9.9%
Return on Equity	12.6%	14.7%	14.3%	13.8%	13.4%
Operating Margin	11.6%	12.9%	14.0%	14.5%	15.0%
Free Cash Flow	168	263	348	367	407

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.9x	1.8x	1.8x	1.8x	1.7x
Asset Replacement Ratio	1.3x	1.3x	1.1x	1.1x	1.1x
Tax Rate	28.4%	24.2%	26.0%	26.0%	26.0%
Net Debt-to-Equity Ratio	50.3%	39.7%	24.3%	11.7%	0.6%
Interest Cover	9.5x	11.1x	11.6x	12.7x	13.7x

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	3,322	3,487	3,658	3,796	3,941
% Change	2.9%	5.0%	4.9%	3.8%	3.8%
Gross Profit	930	1,015	1,134	1,197	1,263
% Change	0.9%	9.1%	11.7%	5.6%	5.5%
EBITDA	620	698	779	818	869
% Change	2.3%	12.6%	11.7%	4.9%	6.2%
Net Interest & Other Income	(38)	(34)	(40)	(39)	(39)
Net Income (Adjusted)	253	320	349	379	410
% Change	-3.8%	26.7%	9.1%	8.6%	8.0%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	240	284	349	379	410
Depreciation & Amortization	234	249	267	266	276
Change in Working Capital	(45)	6	0	0	0
Deferred Taxation Charge	(12)	(20)	0	0	0
Other Adjustments, Net	62	57	22	22	22
Capital Expenditure	(310)	(312)	(290)	(300)	(300)
Free Cash Flow	168	263	348	367	407
% Change	203.0%	56.3%	32.5%	5.4%	11.0%
Share / Issue Repurchase	NA	NA	NA	NA	NA
Cost of Dividends Paid	(99)	(104)	(119)	(131)	(144)
Change in Debt	5	(52)	0	0	0

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	142	224	508	800	1,119
Trade Receivables	677	678	678	678	678
Other Current Assets	612	648	648	648	648
Property, Plant & Equipment	1,344	1,478	1,501	1,535	1,560
Other Non-Current Assets	1,430	1,425	1,425	1,425	1,425
Total Assets	4,203	4,452	4,760	5,086	5,429
Short-Term Debt	123	458	458	458	458
Other Current Liabilities	794	793	793	793	793
Long-Term Debt	1,053	681	681	681	681
Other Non-Current Liabilities	180	213	235	257	279
Total Liabilities	2,150	2,145	2,167	2,189	2,211
Total Equity	2,054	2,307	2,593	2,896	3,217
Total Equity & Liabilities	4,203	4,452	4,760	5,086	5,429

* For full definitions of iQmethodSM measures, see page 5.

Company Sector

Packaging

Company Description

With revenues of \$3.2bn in 2023, AptarGroup is a leading global supplier of dispensing systems for the personal care, fragrance/cosmetic, pharmaceutical, household, and food/beverage markets. AptarGroup has three business segments: (1) Beauty (36% of total sales), (2) Pharma (44% of sales), and (3) Closures (20% of sales). AptarGroup is present in 19 different countries, with manufacturing facilities in North America, Europe, Asia, and South America.

Investment Rationale

We rate ATR Buy. We prefer quality in this market and Aptar's balance sheet and Pharma segment provide this. Last, we see sufficient upside potential relative to our PO to warrant a Buy rating.

Stock Data

Average Daily Volume 336,195

Quarterly Earnings Estimates

	2023	2024
Q1	0.95A	1.15E
Q2	1.23A	1.33E
Q3	1.39A	1.42E
Q4	1.21A	1.30E

Review of Relevant Operating Statistics

Exhibit 1: ATR Model Changes

Review of latest estimates and forecast changes

	Actual	BofA	Consensus
Quarterly Result	\$1.21	\$1.11	\$1.12
Model Changes	New	Old	Consensus
2023A	\$4.78	\$4.67	\$4.65
2024E	\$5.20	\$5.05	\$5.05
2025E	\$5.65	\$5.50	\$5.64
2026E	\$6.10		\$6.35
Price Objective	\$154	\$150	

Source: Company reports, Bloomberg, BofA Global Research estimates

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Exhibit 2: ATR Relevant Operating Statistics

Review of results vs. BofA estimates

	4Q23	BofA	4Q22	Key Highlights
Aptar Beauty				
Revenue (\$mn)	\$287.7	\$309.0	\$292.7	Core sales were down -6% y/y overall including a -4% decline in Beauty, -7% in Personal Care, and -20% in Home Care.
Operating Profit (\$mn)	\$20.8	\$21.6	\$19.4	
Operating Margin	7.2%	7.0%	6.6%	
Aptar Closures				
Revenue (\$mn)	\$165.7	\$171.2	\$168.0	Core sales were down -4% y/y including a -10% decline in Food, -16% in Beverage, -2% in Personal Care, and -2% in other categories.
Operating Profit (\$mn)	\$8.3	\$13.9	\$3.7	
Operating Margin	5.0%	8.1%	2.2%	
Aptar Pharma				
Revenue (\$mn)	\$385.5	\$355.4	\$335.2	Core sales were up 11% y/y in the quarter, including 24% growth in Prescription and 13% in Consumer Health Care. Meantime, Injectables were said to be flat while Active Materials were down -15%.
Operating Profit (\$mn)	\$103.0	\$89.9	\$83.8	
Operating Margin	26.7%	25.3%	25.0%	

Source: Company reports, BofA Global Research estimates

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Price objective basis & risk

AptarGroup Inc. (ATR)

Our \$154 PO is based on a two-part valuation approach: (1) Sum-of-the-parts (SOTP) valuation based on our projection of ATR's 2024 segment results. Given our evaluation of peer and market multiples, we project ATR's Pharma business will be valued at 26x our 2024E EBITDA forecast given where peers currently trade. We value Aptar Closures at 7-8x EV/EBITDA and we value Aptar Beauty segment at a 7x multiple given a longer than expected rebound in the beauty and fragrance market. (2) Normalized FCF valuation which reflects our expectation that it will generate nearly \$300mn of FCF on a normalized basis, an estimated COE of 10%, and a forecast growth rate of 5%.

Upside risks: (1) strength of ATR's project backlog given conversions to dispensing products, (2) specialty packagers' ability to surprise in performance in the mid-to-late cycle, (3) a stronger-than-expected recovery from Asian beverage market destocking, (4) depreciation of USD, (5) ATR's restructuring program which could add materially to forecasts.

Downside risks: (1) should consumer trends remain unfavorable for the stock, (2) acquisition risks, given ATR's balance sheet, (3) unfavorable resin swings, (4) unfavorable international growth and potential effects from coronavirus, (5) mgmt transitions, (6) should trends reverse in the policy or regulatory outlook for the US or other countries.

Analyst Certification

I, George L. Staphos, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Paper and Packaging Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	AptarGroup Inc.	ATR	ATR US	George L. Staphos
	Berry Global	BERY	BERY US	George L. Staphos
	Brady Corp. - CI A	BRC	BRC US	Cashen Keeler
	Crown Holdings Inc.	CCK	CCK US	George L. Staphos
	Graphic Packaging	GPK	GPK US	George L. Staphos
	O-I Glass Inc	OI	OI US	George L. Staphos
	Pactiv Evergreen	PTVE	PTVE US	George L. Staphos
	Sealed Air Corp.	SEE	SEE US	George L. Staphos
	Silgan Holdings Inc.	SLGN	SLGN US	George L. Staphos
	Sonoco Products Co.	SON	SON US	George L. Staphos
	Sylvamo Corp.	SLVM	SLVM US	George L. Staphos
	WestRock	WRK	WRK US	George L. Staphos
	Weyerhaeuser Co.	WY	WY US	George L. Staphos
NEUTRAL				
	Ardagh Metal Packaging S.A.	AMBP	AMBP US	George L. Staphos
	Greif Inc.	GEF	GEF US	George L. Staphos
	Packaging Corp. of America	PKG	PKG US	George L. Staphos
	PotlatchDeltic Corp.	PCH	PCH US	George L. Staphos
UNDERPERFORM				
	Amcor Plc	AMCCF	AMC AU	George L. Staphos
	Amcor PLC	AMCR	AMCR US	George L. Staphos
	Avery Dennison Corp.	AVY	AVY US	George L. Staphos
	Ball Corp.	BALL	BALL US	George L. Staphos
	Boise Cascade Company	BCC	BCC US	George L. Staphos
	International Paper Co.	IP	IP US	George L. Staphos
	Louisiana-Pacific Corp.	LPX	LPX US	George L. Staphos

US - Paper and Packaging Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
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iQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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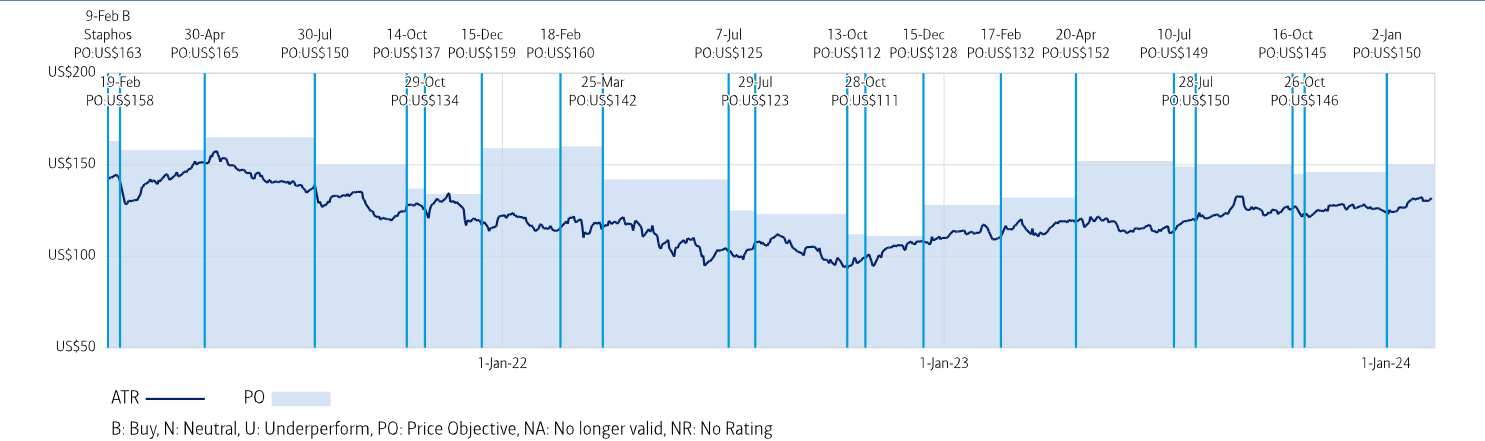
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The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Packaging Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	14	60.87%	Buy	10	71.43%
Hold	6	26.09%	Hold	5	83.33%
Sell	3	13.04%	Sell	2	66.67%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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