

AptarGroup Inc.

4Q Flash: Another good qtr for Pharma; 1Q guide positive v. BofA/Street

Maintain Rating: BUY | PO: 150.00 USD | Price: 132.12 USD

4Q EPS of \$1.21 vs. BofA at \$1.11 and Street at \$1.12

We maintain our Buy rating on ATR which reported 4Q adj. EPS of \$1.21, above BofA at \$1.11 and the Street at \$1.12. This also compares to the company's guidance of \$1.06-1.14. At the segment level, adjusted EBIT of \$115.1mn was ahead of our \$109.4mn estimate (+\$0.06 per share). Meantime, a slightly lower adjusted tax rate added ~4c relative to our model a slightly lower interest expense added 1c. As we discuss below, Pharma was ahead of our earnings estimate with better core growth trends. That said, we would have hoped for better core sales trends (and earnings) in the Beauty and Closures businesses, although trends have been softer than our estimates in traditional packaging markets throughout 4Q reporting.

1Q EPS guidance of \$1.10-1.18 positive v. BofA/Street

ATR's 1Q23 EPS guidance of \$1.10-1.18 compares to BofA at \$1.07 and the Street at \$1.12 (Visible Alpha). This outlook assumes an effective tax rate of 24.5-26.5% as well January month-end FX rates (which equate to a +1c tailwind y/y). In Pharma, the company expects demand for elastomeric components and drug delivery systems to grow – this is important given tough comparisons versus 2023. Meantime, ATR noted that it expects Beauty and Closures to benefit from a recovery in North America as well as from continued demand in fragrance. Lastly, ATR expects D&A of \$260-270mn and capex (net of govt. grants) to be \$280-300mn for 2024.

Pharma ahead of our est. while Beauty & Closures softer

Aptar Pharma segment op. profit was \$103mn which compared to our \$89.9mn estimate (+14c on EPS). The segment had core growth of 11% which was below our 6.1% estimate, and ATR mentioned that it saw double-digit core sales growth in drug delivery systems for many end-use categories. Meantime, Injectables sales were said to be flat while elastomeric components used in biologics saw continued growth. Meantime, active materials sales were lower. Aptar Closures operating profit of \$8.3mn was below our \$13.9mn estimate (or -6c on EPS) and core sales were down -4% (vs. our 0.9% estimate) given the pass through of lower resin costs. ATR mentioned that volumes were up in certain categories like personal and home care in North America and beverage in Europe, but given the result, we suspect overall segment volumes were lower. As for Aptar Beauty, operating profit of \$20.8mn was also slightly lower than our \$21.6mn estimate (-1c on EPS). Core growth of -6% was lower than our 5.6% estimate as ATR cited market softness in North America. Meantime, demand for fragrance dispensing products was described as "healthy" in Europe and Latin America. (While not directly comparable, Silgan (SLGN; Buy) generated better EBIT than our forecast during 4Q, despite sluggish volumes in its Dispensing & Specialty Closures segment). Lastly, Corporate & Other was -\$17.1mn compared to our -\$16mn estimate (or -1c on EPS).

08 February 2024

Equity

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Stock Data

Price	132.12 USD
Price Objective	150.00 USD
Date Established	2-Jan-2024
Investment Opinion	B-1-7
52-Week Range	107.89 USD - 134.84 USD
Mrkt Val (mn) / Shares Out (mn)	8,681 USD / 65.7
Free Float	99.4%
Average Daily Value (mn)	42.89 USD
BofA Ticker / Exchange	ATR / NYS
Bloomberg / Reuters	ATR US / ATR.N
ROE (2023E)	14.7%
Net Dbt to Eqty (Dec-2022A)	50.3%
ESGMeter™	High

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Timestamp: 08 February 2024 07:40PM EST

Price objective basis & risk

AptarGroup Inc. (ATR)

Our \$150 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.

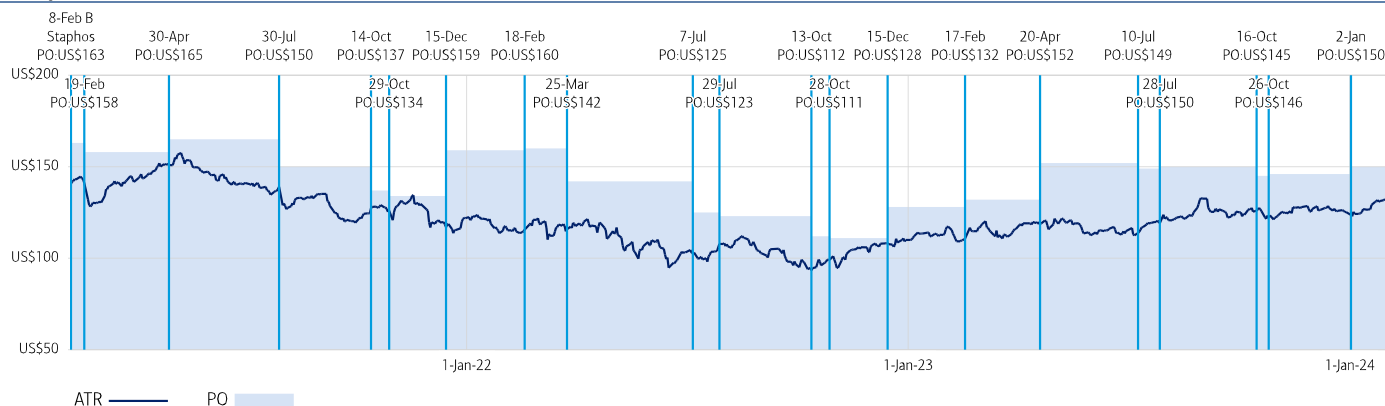
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AptarGroup Inc. (ATR) Price Chart



ATR — PO

B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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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%
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Sell	807	22.84%	Sell	383	47.46%

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