



**November 6, 2012**

**Dear clients and colleagues,**

Together with promoting, pricing and advertising, packaging is one of the main marketing strategies used to sell products, whether a retro bulb atomizer in Bvlgari's Jasmin Noir, or twist-to-lock actuators in air fresheners. Caps and closures is the most attractive segment in the packaging industry and has been growing 6.5% every year for more than a decade and even faster in emerging markets.

Some of the drivers of growth have been:

- ✓ Manufacturers' focus on higher-value-added, more-expensive closures that boost consumer safety, user convenience and shelf appeal.
- ✓ Western-style consumption habits in emerging markets like China and India have also driven growth.
- ✓ Packaging was traditionally made of glass or metal, is now made of plastic; 80% of caps and closures are plastic, up from about 50% in 1990.

Exposure to a fast-growing and attractive industry, accelerated growth, coupled with a stable market are some of the characteristics we look for in an investment. We have all this and exposure to the caps and closures segment of the packaging industry with AptarGroup. A company we have owned since 2009 (last reviewed on February 19, 2009), AptarGroup is a well-managed company offering great growth opportunities in the years ahead.

### **AptarGroup (ATR US - \$27.46)**

[www.aptargroup.com](http://www.aptargroup.com)

Founded more than 50 years ago, AptarGroup is a leader in the packaging sector, particularly in the global dispensing systems industry. They make the valves and sprays, etc. that dispense the product from the bottle. The company has over 11,000 employees in 19 different countries. Its main product segments are in the pharmaceutical, beauty and home products. The company is a real technology leader and product innovator. The example we often give is Heinz ketchup; the product has been the same for over 75 years, but the bottle changes every few years.

#### **Market Data**

Market cap \$3,366M, div yield 1.7%, p/e (12/2013) 17.8x, roe 13.5%, ev/ebitda p/e (12/2013) 8.0x, net debt/ebitda 0.5x.

#### **Target Market Size**

The company has around 10-15% of the global closure market (market of \$20B growing at around 4-6% per year).



### ***Competitive advantages***

The company is one of the top 3 players in its markets. It has the best focus and balance sheet. Aptar has a global presence allowing it to serve its multinational customers.

### ***Growth strategy***

The growth in packaging, especially in emerging economies, exceeds GDP growth. The company's strategy is to innovate with new products and follow its customers around the world.

Aptar's market focus strategy helps increase the penetration in new categories and drive growth faster than the industry. For example the beverage market where it had very little presence two years ago; but is now benefitting from the success of major launches like Kraft's MiO water flavoring, Tropicana's new 89-ounce carafe-style package, and other beverage products around the globe, including one of the leading sports drinks in China.

It also made a strategic decision to enter new Pharma sector by acquiring Stelmi Group. The acquisition gave Aptar access to new injectable drug technology. The Injectable Delivery Devices segment is a \$10B industry and part of \$300B medical device industry.

### ***Risk***

Raw material costs have been very volatile in the past few years.

### ***Investment Theme***

It's all about marketing and consumers' demand for convenience. The company is a leader and is now facing competitors that are non core divisions of larger companies.

### ***Valuation***

Target price = \$60.31, using DCF model at growth rate of 10% for the next 7 years, 6% at maturity, risk premium of 8%, and payout at maturity of 55%.

Have a good week.

The Global Alpha Team