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# When a Stock Becomes a Ninja

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The past year and a half has been an interesting time in the equity markets. Since the beginning of 2022, the Federal Reserve's hand-to-hand combat with monstrous inflation led to a sharp sell-off, immediately followed by a rebound. In these times of market volatility, we have begun to look for ideas that have differentiated business exposure in order to ensure safety for our clients.

"The first priority of the ninja is to win without fighting."

~ Masaaki Hatsumi, Bunjinkan Grandmaster

Ninja simply means spy in Japanese, but for business management consultants the term ninja has a much deeper connotation. We are using the word ninja here to describe a stock in an equity portfolio that has the potential to act very differently than its peer group. These types of companies usually have a very specific business model, exposure to different economic drivers, or have recently completed a business transformation, such as an acquisition.

The Materials industry provides the vast majority of the commodities for other industries to make products. Automakers could not build electric vehicles unless a Materials company mined lithium. Skyscrapers would not exist without steel, which is mined as iron ore by Materials companies. Almost all food requires fertilizers, which are provided by Materials companies. But in the Materials sector, it is tough to find companies that meet our quality screening criterion. Economic cyclicality, the commodity nature of the products, and extreme competition often lead to years of negative cash flow, increasing debt, and dividend cuts.

Earlier this year, we added AptarGroup, Inc. (ATR), a packaging company, to our Core Equity portfolio, and we found this ninja stock in the most unlikely of places: the Materials sector. It is differentiated because of its unique customer exposure, which could provide sustainable dividend growth and high returns, even in the face of near-term macro-economic uncertainty.

The majority of Aptar's revenue, about 60%, comes from manufacturing contracts with biotechnology and pharmaceutical companies. Healthcare companies have more consistent and predictable demand than the overall economy, and in recessions, people tend to make cuts to other spending categories before medication. Within the Healthcare industry, Aptar's plastics and delivery devices separate it from its peers.

The remainder of Aptar's business does have some cyclicality, but to a lesser degree. It brings incremental product innovation to its customers in order to receive premium pricing and has exposure to the cosmetics and perfume industries where it provides a premium package (think: color, quality, shape) to differentiate high-margin products. Another example includes plastic dispensing tops (think:  toothpastes moving from a screw top to a flip top). Aptar's packaging solutions typically integrate with the identity of the product, making disintermediation unlikely.

At Crawford, near-term business characteristics are not enough. Aptar also fits with our views on quality and *Dividend Integrity*. From a quality perspective, Aptar has over 5,000 customers globally, with a track record of very little customer churn. This allows for the company's earnings and cash flows to grow steadily and consistently. Aptar has a high degree of *Dividend Integrity*, primarily accomplished through a 29-year track record of paying a dividend. In addition, the management team purposefully pays out a small percentage of the cash flow to dividends (target of 15%) but rewards shareholders with share repurchases in years when business is stronger. Plus, Aptar's balance sheet carries lower-than-average debt levels.

Back to the ninja analogy: our purchase of Aptar reflects our strategy of winning without having to fight. This strategy includes seeking out product demand exposure in more resilient markets, contracting that should allow for consistent growth, and technology focus that holds up better over volume delivery of a commodity. With a ninja strategy, we hope to win by investing in a company that can better avoid problems in an economic downturn.

We cannot be certain which direction the market will trade in the near term. It is possible inflation has been tamed and the Central Banks achieve a soft landing. However, the already restrictive policy might have slowed capital movement enough to lead to a slowing economy. Either way, we are focused on high-quality companies that should be able to appreciate in value over the long term and pay our clients dividends for years to come. At Crawford, we have helped our clients survive the ups and downs of the market for over forty years with quality, dividend-paying stocks as the backbone of their portfolios.



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