



# Nordson Corporation (NDSN)

Updated December 13<sup>th</sup>, 2018 by Eli Inkrot

## Key Metrics

<b>Current Price:</b>	\$119	<b>5 Year CAGR Estimate:</b>	8.9%	<b>Volatility Percentile:</b>	72.4%
<b>Fair Value Price:</b>	\$117	<b>5 Year Growth Estimate:</b>	8.0%	<b>Momentum Percentile:</b>	44.7%
<b>% Fair Value:</b>	102%	<b>5 Year Valuation Multiple Estimate:</b>	-0.3%	<b>Growth Percentile:</b>	72.2%
<b>Dividend Yield:</b>	1.2%	<b>5 Year Price Target</b>	\$172	<b>Valuation Percentile:</b>	41.7%
<b>Dividend Risk Score:</b>	B	<b>Retirement Suitability Score:</b>	D	<b>Total Return Percentile:</b>	41.7%

## Overview & Current Events

Nordson was founded in 1954 in Amherst, Ohio by brothers Eric and Evan Nord, but the company can trace its roots back to 1909 with the U.S. Automatic Company. Today the company has operations in 35 countries and engineers, manufactures and markets products used for dispensing adhesives, coatings, sealants, biomaterials, plastics and other materials, with applications ranging from diapers and straws to cell phones and aerospace. The \$7.0 billion market capitalization company employs 7,500 people and generated \$2.25 billion in sales last year.

On December 12<sup>th</sup>, 2018 Nordson reported fourth quarter and full year results. For the quarter, sales came in at \$569 million, net income was \$86.7 million and diluted earnings per share were \$1.47. Those numbers represent a 0.8% decline, an 8.6% increase and a 7.3% increase respectively, compared to last year. Adhesive Dispensing Systems saw a 1.1% rise in sales, while Advanced Technology Systems and Industrial Coating Systems had declines of 0.6% and 8.2%.

For the full fiscal year (ending October 31<sup>st</sup>) sales came in at \$2.25 billion, net income was \$377 million and diluted earnings-per-share equated to \$6.40, representing increases of 9.1%, 27.6% and 26.0% respectively. Note that roughly \$0.45 of that improvement came from U.S. Tax Reform. Without that aspect, adjusted earnings totaled \$5.94 or a 10.6% increase compared to the prior year. Nordson also provided guidance for fiscal year 2019. Organic sales volume is forecasted to grow 3% to 5% next year and the operating margin is expected to improve 100 to 150 basis points.

## Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
<b>EPS</b>	\$1.20	\$2.24	\$3.27	\$3.45	\$3.42	\$3.84	\$3.58	\$4.68	\$5.37	\$5.94	<b>\$6.50</b>	<b>\$9.55</b>
<b>DPS</b>	\$0.37	\$0.39	\$0.44	\$0.53	\$0.63	\$0.80	\$0.90	\$0.99	\$1.11	\$1.25	<b>\$1.45</b>	<b>\$2.39</b>
<b>Shares</b>	67	68	66	64	64	62	57	57	58	59	<b>59</b>	<b>59</b>

From 2010 through 2018 Nordson was able to grow earnings-per-share by an impressive 13% annually. While earnings dipped during the last recession, the company has now reported positive earnings growth in 7 of the last 8 years. Nordson's dividend record is tremendous, having not only paid but also increased its dividend for 54 consecutive years (one of just 15 firms to make that claim). The current dividend yield is not impressive, but the low payout ratio and strong underlying profit machine show a clear path to many dividend increases ahead.

Nordson lays out an investing thesis for itself noting items like bet-in-class technology that increases customer production and reduces cost, a global service model, a balanced revenue stream and an excellent business track record. Areas for growth include increased use of disposable products, productivity investments, mobile computing, increased medical device usage and light-weight / lean manufacturing of vehicles all of which benefit from the company's adhesive and coating segments. We do not agree with increased plastic use being a growth avenue in the U.S. (consumer behavior seems to be shifting away from this) but emerging market growth does appear to be a long-term tailwind. The company's forecast of mid-single digit organic growth paired with margin improvement mirrors the company's recent history. As the company continues to integrate acquisitions, this should lead to solid bottom line growth.

*Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.*



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## Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
<b>Avg. P/E</b>	16.1	14.5	14.7	15.0	20.0	19.5	21.0	17.0	22.0	20.0	<b>18.3</b>	<b>18.0</b>
<b>Avg. Yld.</b>	1.9%	1.2%	0.9%	1.0%	0.9%	1.1%	1.2%	1.2%	0.9%	1.1%	<b>1.2%</b>	<b>1.4%</b>

Over the past decade shares of Nordson have traded at an average P/E ratio of 18 times, with a range from 14 to 22 times earnings. We believe a premium valuation is fair considering the company's strong past and future prospects. The dividend does not add materially to the investment thesis, but it has a storied record. Moreover, given strong earnings growth expectations coupled with a low dividend payout ratio, there is ample room for dividend growth to outpace profit improvement.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
<b>Payout</b>	31%	17%	13%	15%	18%	20%	25%	21%	20%	21%	<b>22%</b>	<b>25%</b>

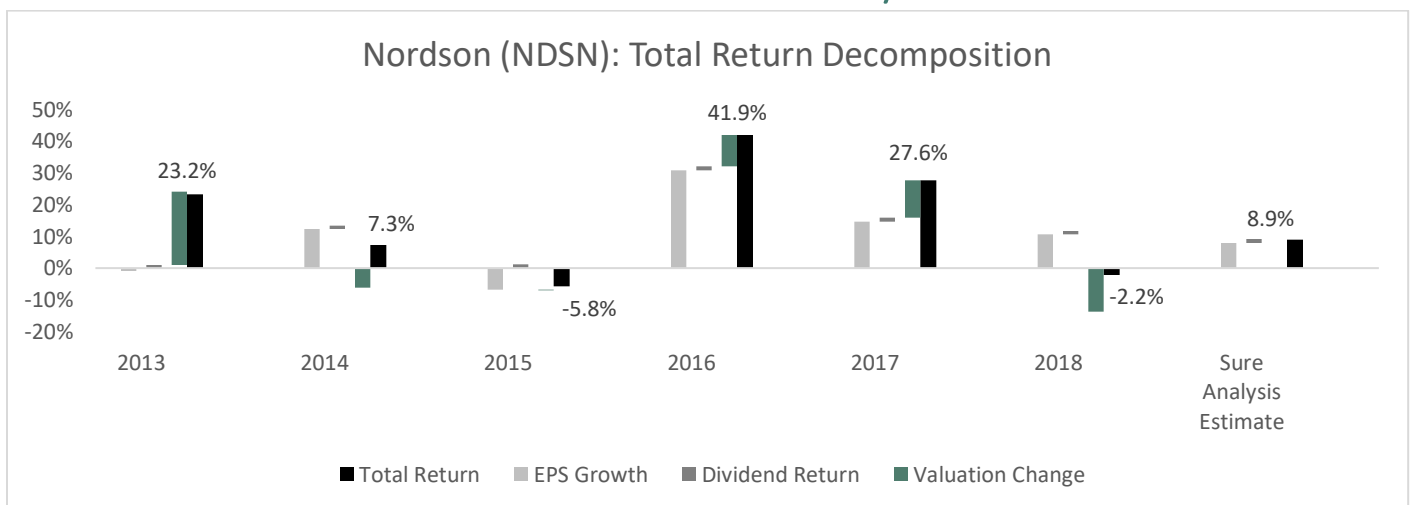
Nordson's main competitive advantage is in its enormous installed base of customers around the world. The company provides niche, but critical, pieces involved in a variety of manufacturing processes. As such, it is difficult for competitors to compete away the company's position. Of course this does not mean that Nordson is immune from recessions. During the last crisis, earnings fell 32% for the year, before rebounding strongly. Given the company's dependence on worldwide growth, another downturn could dampen the company's near-term growth forecasts.

As of the most recent quarterly report Nordson held \$96 million in cash, \$884 million in current assets and \$3.4 billion in total assets against \$350 million in current liabilities, \$1.3 billion in long-term debt and \$2.0 billion in total liabilities. For next year the company anticipates \$45 million in interest expense compared to ~\$400 million in underlying earnings.

## Final Thoughts & Recommendation

Nordson is the type of company that you would love to own at the right price. The company's growth prospects appear solid and Nordson's past record, both on the earnings and dividend front, are enviable. We believe today's valuation is more or less fair. As such, the total return prospects appear reasonable but not spectacular. We rate Nordson as a strong hold and possible buy at current prices.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>Revenue</b>	1125	819	1042	1233	1410	1543	1704	1689	1809	2067
<b>Gross Profit</b>	630	469	622	748	823	866	945	914	993	1139
<b>Gross Margin</b>	56.0%	57.2%	59.7%	60.7%	58.4%	56.1%	55.5%	54.1%	54.9%	55.1%
<b>SG&amp;A Exp.</b>	434	337	385	429	488	541	575	585	594	679
<b>D&amp;A Exp.</b>	32	31	29	29	39	54	60	65	70	91
<b>Operating Profit</b>	196	132	237	319	335	325	370	329	399	460
<b>Operating Margin</b>	17.4%	16.1%	22.7%	25.9%	23.8%	21.1%	21.7%	19.5%	22.1%	22.3%
<b>Net Profit</b>	118	-160	168	222	225	222	247	211	272	296
<b>Net Margin</b>	10.4%	-19.5%	16.1%	18.0%	16.0%	14.4%	14.5%	12.5%	15.0%	14.3%
<b>Free Cash Flow</b>	88	156	126	226	243	221	245	200	270	278
<b>Income Tax</b>	62	33	63	92	101	89	106	90	97	124

## Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>Total Assets</b>	1167	891	986	1304	1830	2053	2280	2360	2421	3415
<b>Cash &amp; Equivalents</b>	12	19	42	37	41	42	42	50	67	90
<b>Accounts Receivable</b>	225			235	309	292	347	373	415	491
<b>Inventories</b>	118	98	118	142	170	198	211	226	220	264
<b>Goodwill &amp; Int. Ass.</b>	626	384	390	669	1041	1208	1344	1360	1367	2136
<b>Total Liabilities</b>	593	521	481	733	1160	1165	1375	1700	1569	2259
<b>Accounts Payable</b>	43	33	40	46	67	62	69	68	75	86
<b>Long-Term Debt</b>	289	158	112	319	634	653	800	1117	983	1583
<b>Shareholder's Equity</b>	574	370	505	571	670	888	905	660	852	1155
<b>D/E Ratio</b>	0.50	0.43	0.22	0.56	0.95	0.74	0.88	1.69	1.15	1.37

## Profitability & Per Share Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>Return on Assets</b>	9.9%	-15.6%	17.9%	19.4%	14.3%	11.4%	11.4%	9.1%	11.4%	10.1%
<b>Return on Equity</b>	21.3%	-33.9%	38.4%	41.3%	36.2%	28.5%	27.5%	27.0%	36.0%	29.5%
<b>ROIC</b>	13.5%	-23.0%	29.3%	29.5%	20.5%	15.6%	15.2%	12.1%	15.1%	12.9%
<b>Shares Out.</b>	67	68	66	64	64	62	57	57	58	59
<b>Revenue/Share</b>	16.39	12.20	15.22	18.02	21.65	23.77	26.51	27.61	31.44	35.51
<b>FCF/Share</b>	1.28	2.33	1.84	3.31	3.74	3.41	3.80	3.27	4.70	4.78

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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