



Nordson Corporation (NDSN)

Updated February 21st, 2019 by Eli Inkrot

Key Metrics

Current Price:	\$139	5 Year CAGR Estimate:	3.9%	Volatility Percentile:	62.9%
Fair Value Price:	\$113	5 Year Growth Estimate:	7.0%	Momentum Percentile:	44.2%
% Fair Value:	123%	5 Year Valuation Multiple Estimate:	-4.1%	Growth Percentile:	66.0%
Dividend Yield:	1.0%	5 Year Price Target	\$158	Valuation Percentile:	20.3%
Dividend Risk Score:	A	Retirement Suitability Score:	C	Total Return Percentile:	15.8%

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 \$8 billion market capitalization company employs 7,500 people and generated \$2.3 billion in sales last year.

On February 20th, 2019 Nordson released Q1 fiscal year 2019 results for the period ending January 31st, 2019 (Note: Nordson's fiscal year ends October 31st). For the quarter the company reported \$498 million in sales, a 9.5% decline compare to Q1 fiscal year 2018, after a very strong quarter last year. Adhesive Dispensing Systems saw sales decline 4.2%, while Advanced Technology Systems and Industrial Coating Systems had declines of 13.7% and 10.2% respectively. Geographically, the U.S. (roughly a third of sales) actually posted a 2.7% gain in sales, while Japan saw a substantial decline, with the Americas, Europe and Asia Pacific regions also posting lower sales volume. Adjusted earnings-per-share came in at \$0.92 against \$1.35 in the prior year period.

Nordson also indicated that its backlog equaled \$439 million, a 9% increase compared to the same period a year ago. Management believes organic sales can grow 3% to 5% for fiscal year 2019.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	\$1.20	\$2.24	\$3.27	\$3.45	\$3.42	\$3.84	\$3.58	\$4.68	\$5.37	\$5.94	\$6.25	\$8.77
DPS	\$0.37	\$0.39	\$0.44	\$0.53	\$0.63	\$0.80	\$0.90	\$0.99	\$1.11	\$1.25	\$1.45	\$2.19
Shares	67	68	66	64	64	62	57	57	58	58	58	58

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 lays out an investing thesis for itself noting items like best-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. However, recent results do give us a bit of pause, resulting in the expectation of mid-to-high single digit growth rather than double-digit growth. Regardless, as the company continues to integrate acquisitions, this should lead to solid bottom line improvement.

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	Now	2024
Avg. P/E	16.1	14.5	14.7	15.0	20.0	19.5	21.0	17.0	22.0	20.0	22.2	18.0
Avg. Yld.	1.9%	1.2%	0.9%	1.0%	0.9%	1.1%	1.2%	1.2%	0.9%	1.1%	1.0%	1.4%

Over the past decade shares of Nordson have traded at an average P/E ratio of about 18, with a range from 14 to 22 times earnings. While we believe a premium valuation is fair considering the company's strong past and future prospects, the current valuation is still at a historically high level. Should shares return to a high-teens multiple, as has been typical, this could create a large headwind for future returns.

The dividend does not add materially to the investment thesis, but Nordson has a storied record of having not only paid but also increased its dividend for 55 consecutive years (one of just a dozen or so 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.

Safety, Quality, Competitive Advantage, & Recession Resiliency

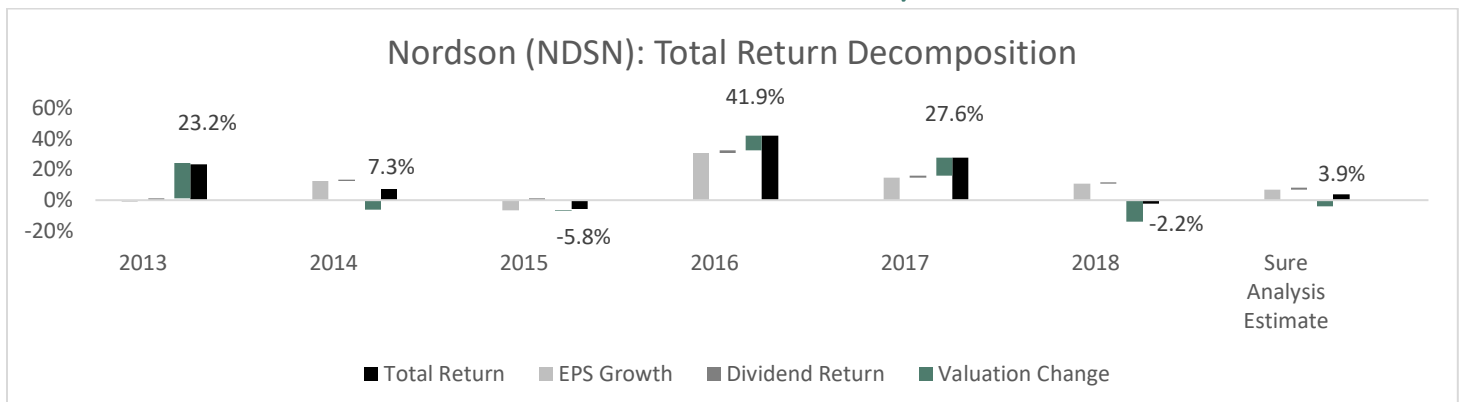
Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	31%	17%	13%	15%	18%	20%	25%	21%	20%	21%	23%	25%

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. For next year the company anticipates \$45 million in interest expense compared to \$350+ million in underlying earnings power.

Final Thoughts & Recommendation

Nordson's share price is up about 17% since our last update, while the company's results have given us a bit of pause. 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. However, we are not enthused by today's valuation, trading near historically high levels. As such, the total return prospects do not appear particularly compelling from this point. We rate Nordson as a sell solely on the grounds of the current valuation, but could become more encouraged with a lower price and/or an uptick in growth prospects.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	819	1042	1233	1410	1543	1704	1689	1809	2067	2255
Gross Profit	469	622	748	823	866	945	914	993	1139	1236
Gross Margin	57.2%	59.7%	60.7%	58.4%	56.1%	55.5%	54.1%	54.9%	55.1%	54.8%
SG&A Exp.	337	385	429	488	541	575	585	605	681	741
D&A Exp.	31	29	29	39	54	60	65	70	91	108
Operating Profit	132	237	319	335	325	370	329	388	458	495
Op. Margin	16.1%	22.7%	25.9%	23.8%	21.1%	21.7%	19.5%	21.5%	22.1%	21.9%
Net Profit	-160	168	222	225	222	247	211	272	296	377
Net Margin	-19.5%	16.1%	18.0%	16.0%	14.4%	14.5%	12.5%	15.0%	14.3%	16.7%
Free Cash Flow	156	126	226	243	221	245	200	274	285	415
Income Tax	33	63	92	101	89	106	90	97	124	71

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	891	986	1304	1830	2053	2280	2360	2421	3415	3421
Cash & Equivalents	19	42	37	41	42	42	50	67	90	96
Accounts Receivable	N/A	N/A	235	309	292	347	373	415	491	476
Inventories	98	118	142	170	198	211	226	220	264	264
Goodwill & Int. Ass.	384	390	669	1041	1208	1344	1360	1367	2136	2108
Total Liabilities	521	481	733	1160	1165	1375	1700	1569	2259	1970
Accounts Payable	33	40	46	67	62	69	68	75	86	84
Long-Term Debt	158	112	319	634	653	800	1117	983	1583	1314
Shareholder's Equity	370	505	571	670	888	905	660	852	1155	1451
D/E Ratio	0.43	0.22	0.56	0.95	0.74	0.88	1.69	1.15	1.37	0.91

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	-15.6%	17.9%	19.4%	14.3%	11.4%	11.4%	9.1%	11.4%	10.1%	11.0%
Return on Equity	-33.9%	38.4%	41.3%	36.2%	28.5%	27.5%	27.0%	36.0%	29.5%	29.0%
ROIC	-23.0%	29.3%	29.5%	20.5%	15.6%	15.2%	12.1%	15.1%	12.9%	13.7%
Shares Out.	67	68	66	64	64	62	57	57	58	58
Revenue/Share	12.20	15.22	18.02	21.65	23.77	26.51	27.61	31.44	35.51	38.26
FCF/Share	2.33	1.84	3.31	3.74	3.41	3.80	3.27	4.76	4.90	7.04

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

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