



Nordson Corporation (NDSN)

Updated February 23rd, 2020 by Eli Inkrot

Key Metrics

Current Price:	\$170	5 Year CAGR Estimate:	-0.7%	Market Cap:	\$9.9 B
Fair Value Price:	\$116	5 Year Growth Estimate:	6.0%	Ex-Dividend Date:	02/24/20
% Fair Value:	147%	5 Year Valuation Multiple Estimate:	-7.4%	Dividend Payment Date:	03/10/20
Dividend Yield:	0.9%	5 Year Price Target	\$155	Years Of Dividend Growth:	56
Dividend Risk Score:	A	Retirement Suitability Score:	C	Last Dividend Increase:	8.6%

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 \$10 billion market capitalization company employs 7,500 people and generated \$2.2 billion in sales last year.

On August 16th, 2019 Nordson increased its dividend from \$0.35 to \$0.38 per quarter, representing an 8.6% increase. This marks the company's 56th consecutive year of not only paying but also increasing its dividend.

On February 19th, 2020 Nordson released Q1 fiscal year 2020 results for the period ending January 31st, 2020. (Nordson's fiscal year ends October 31st.) For the quarter the company reported \$495 million in sales, a -1% decrease compared to Q1 2019, as organic volume declined -1%. The Industrial Coating Systems segment saw sales increase 9%; however, this was offset by -2% and -1% declines in the Adhesive Dispensing Systems and Advanced Technology Systems segments respectively. Net income totaled \$52 million, compared to \$48.6 million previously, while adjusted earnings-per-share equaled \$0.89 versus \$0.92 in the year ago quarter.

Nordson's backlog finished the quarter at \$430 million, a decrease of -1% compared to the same period a year ago. In addition, the company reiterated its guidance for 1% to 3% organic sales growth this year.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	\$2.24	\$3.27	\$3.45	\$3.42	\$3.84	\$3.58	\$4.68	\$5.37	\$5.94	\$5.87	\$6.10	\$8.16
DPS	\$0.39	\$0.44	\$0.53	\$0.63	\$0.80	\$0.90	\$0.99	\$1.11	\$1.25	\$1.43	\$1.52	\$2.04
Shares¹	68	66	64	64	62	57	57	58	58	58	58	58

From 2010 through 2019 Nordson was able to grow earnings-per-share by a solid 11.3% annually. While earnings dipped during the last recession, the company has now reported positive earnings growth in 7 of the last 9 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 lightweight / 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.

We are forecasting 6% annual growth over the intermediate-term, driven by top line improvement, stable margins and the company continuing to integrate acquisitions.

¹ In millions.

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	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	14.5	14.7	15.0	20.0	19.5	21.0	17.0	22.0	22.7	22.2	27.9	19.0
Avg. Yld.	1.2%	0.9%	1.0%	0.9%	1.1%	1.2%	1.2%	0.9%	0.9%	1.1%	0.9%	1.3%

Over the past decade shares of Nordson have traded at an average P/E ratio of about 19, with a range from 14 to 23 times earnings. While we believe a premium valuation is fair considering the company's strong past and future prospects, the current valuation is at historically high level. Should shares return to a high-teens multiple, as has been more typical, this could create a significant headwind for future returns.

The dividend does not add materially to the investment thesis, but Nordson has a storied record of dividend increases. 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

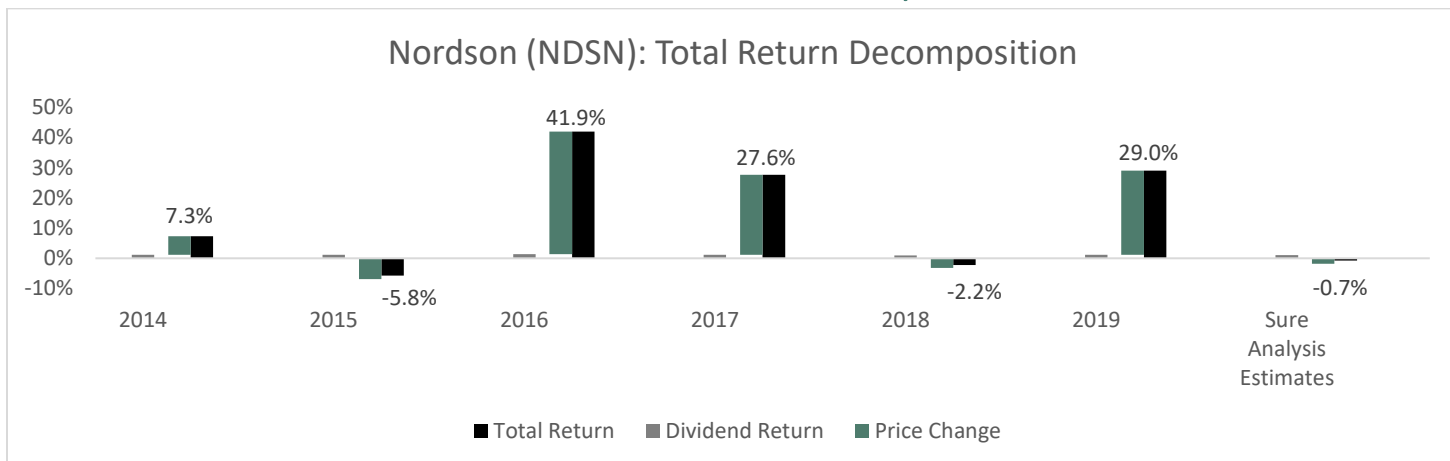
Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	17%	13%	15%	18%	21%	25%	21%	21%	21%	24%	25%	25%

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 this year the company anticipates ~\$36 million in interest expense compared to ~\$350 million in underlying earnings power.

Final Thoughts & Recommendation

Shares are up 4% since our last report. 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 at historically high level. We are forecasting -0.7% annual returns, stemming from a 6% growth rate, a 0.9% dividend yield and the potential for a significant valuation headwind. We rate Nordson as a sell as a result 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	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	1042	1233	1410	1543	1704	1689	1809	2067	2255	2194
Gross Profit	622	748	823	866	945	914	993	1139	1236	1192
Gross Margin	59.7%	60.7%	58.4%	56.1%	55.5%	54.1%	54.9%	55.1%	54.8%	54.3%
SG&A Exp.	385	429	488	541	575	585	605	681	741	709
D&A Exp.	29	29	39	54	60	65	70	91	108	110
Operating Profit	237	319	335	325	370	329	388	458	495	483
Op. Margin	22.7%	25.9%	23.8%	21.1%	21.7%	19.5%	21.5%	22.1%	21.9%	22.0%
Net Profit	168	222	225	222	247	211	272	296	377	337
Net Margin	16.1%	18.0%	16.0%	14.4%	14.5%	12.5%	15.0%	14.3%	16.7%	15.4%
Free Cash Flow	126	226	243	221	245	200	274	285	415	319
Income Tax	63	92	101	89	106	90	97	124	71	94

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	986	1304	1830	2053	2280	2360	2421	3415	3421	3516
Cash & Equivalents	42	37	41	42	42	50	67	90	96	151
Accounts Receivable		235	309	292	347	373	415	491	476	531
Inventories	118	142	170	198	211	226	220	264	264	283
Goodwill & Int. Ass.	390	669	1041	1208	1344	1360	1367	2136	2108	
Total Liabilities	481	733	1160	1165	1375	1700	1569	2259	1970	1935
Accounts Payable	40	46	67	62	69	68	75	86	84	
Long-Term Debt	112	319	634	653	800	1117	983	1583	1314	1244
Shareholder's Equity	505	571	670	888	905	660	852	1155	1451	1581
D/E Ratio	0.22	0.56	0.95	0.74	0.88	1.69	1.15	1.37	0.91	0.79

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	17.9%	19.4%	14.3%	11.4%	11.4%	9.1%	11.4%	10.1%	11.0%	9.7%
Return on Equity	38.4%	41.3%	36.2%	28.5%	27.5%	27.0%	36.0%	29.5%	29.0%	22.2%
ROIC	29.3%	29.5%	20.5%	15.6%	15.2%	12.1%	15.1%	12.9%	13.7%	12.1%
Shares Out.	68	68.43	65.10	64.91	64.28	61.15	57.53	58.20	58.93	58.20
Revenue/Share	15.22	18.02	21.65	23.77	26.51	27.61	31.44	35.51	38.26	37.70
FCF/Share	1.84	3.31	3.74	3.41	3.80	3.27	4.76	4.90	7.04	5.47

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

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