



# Nordson Corporation (NDSN)

Updated December 16<sup>th</sup>, 2020 by Eli Inkrot

## Key Metrics

<b>Current Price:</b>	\$193	<b>5 Year CAGR Estimate:</b>	-1.3%	<b>Market Cap:</b>	\$ B
<b>Fair Value Price:</b>	\$128	<b>5 Year Growth Estimate:</b>	6.0%	<b>Ex-Dividend Date:</b>	12/17/20
<b>% Fair Value:</b>	151%	<b>5 Year Valuation Multiple Estimate:</b>	-7.9%	<b>Dividend Payment Date:</b>	01/05/21
<b>Dividend Yield:</b>	0.8%	<b>5 Year Price Target</b>	\$171	<b>Years Of Dividend Growth:</b>	57
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	C	<b>Last Dividend Increase:</b>	2.6%

## 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. On March 30<sup>th</sup>, 2020 Nordson announced that the company was reorganizing into two segments: Industrial Precision Solutions (IPS) and Advanced Technology Solutions (ATS). The \$11 billion market cap company generated \$2.1 billion in sales last year.

On August 14<sup>th</sup>, 2020 Nordson increased its dividend from \$0.38 to \$0.39 per quarter, representing a 2.6% increase. This marks the company's 57<sup>th</sup> consecutive year of increasing its dividend.

On December 15<sup>th</sup>, 2020 Nordson released Q4 and full year 2020 results for the period ending October 31<sup>st</sup>, 2020. For the quarter the company reported \$559 million in sales, a -4.6% decline compared to Q4 2019. The Industrial Precision Solutions segment saw sales decline -8.3%, while the Advanced Technology Solutions portion of the business was up 0.5%. Net income equaled \$93.0 million compared to \$104.2 million in the year ago period, while adjusted earnings-per-share totaled \$1.59 versus \$1.79 in Q4 2019.

For the year Nordson reported \$2.12 billion in sales, a -3.3% decline compared to fiscal year 2019. The Industrial Precision Solutions segment saw sales decline -5.4%, while the Advanced Technology Solutions portion of the business was down -0.8%. Net income equaled \$320.4 million compared to \$341.6 million in 2019, while adjusted earnings-per-share totaled \$5.48 versus \$5.87 in 2019.

Nordson's backlog finished the quarter at \$416 million, an increase of 5% compared to the same period a year ago. For the first quarter of 2021 the company anticipates 2% to 3% sales growth and adjusted earnings growth of 15% to 20%.

## Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
<b>EPS</b>	\$3.27	\$3.45	\$3.42	\$3.84	\$3.58	\$4.68	\$5.37	\$5.94	\$5.87	\$5.48	<b>\$6.40</b>	<b>\$8.56</b>
<b>DPS</b>	\$0.44	\$0.53	\$0.63	\$0.80	\$0.90	\$0.99	\$1.11	\$1.25	\$1.43	\$1.53	<b>\$1.56</b>	<b>\$2.29</b>
<b>Shares<sup>1</sup></b>	66	64	64	62	57	57	58	58	58	58	<b>58</b>	<b>58</b>

From 2010 through 2019 Nordson grew earnings-per-share by a solid 11.3% annually. However, earnings dipped during the last recession and fell again in 2020, although a strong rebound is now expected.

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.

<sup>1</sup> In millions.

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We are expecting earnings to be up significantly in 2020. Over the intermediate term we are forecasting 6% growth off a higher base, driven by top line improvement, stable margins and the company continuing to integrate acquisitions.

## Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	14.7	15.0	20.0	19.5	21.0	17.0	22.0	22.7	22.8	27.8	30.2	20.0
Avg. Yld.	0.9%	1.0%	0.9%	1.1%	1.2%	1.2%	0.9%	0.9%	1.1%	1.0%	0.8%	1.3%

Over the past decade shares of Nordson have traded at an average P/E ratio of about 20, with the multiple picking up materially as of late. While we believe a premium valuation is fair considering the company's strong past and future prospects, the current valuation is at a historically high level of 30 times earnings. Should shares return to 20 times earnings, 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

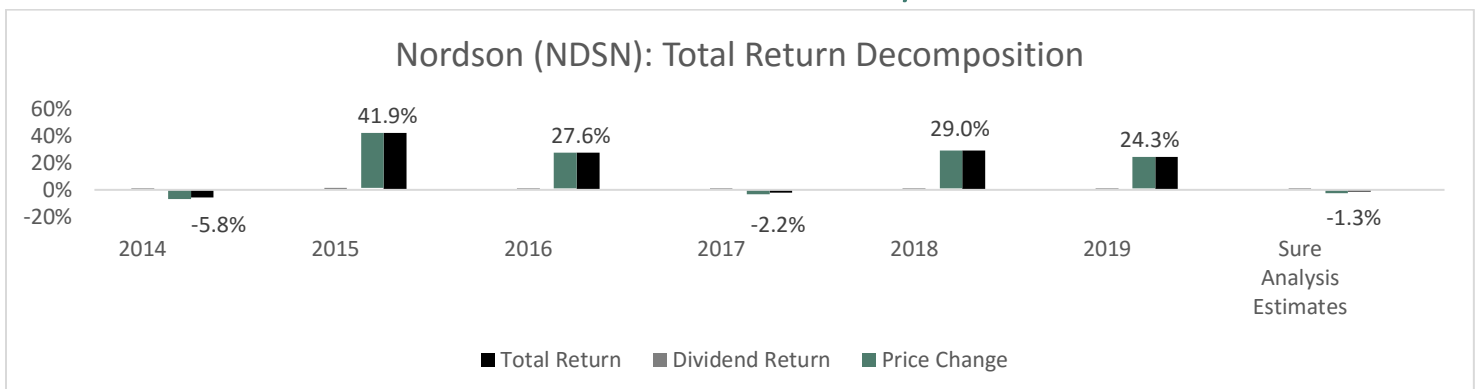
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	13%	15%	18%	21%	25%	21%	21%	21%	24%	28%	24%	27%

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. Indeed, the current crisis will test the company's resilience, although recent guidance has been encouraging.

## Final Thoughts & Recommendation

Shares are up marginally since our last update. 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 negative -1.3% annual returns, stemming from a 6% growth rate and a 0.8% dividend yield offset by 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 valuation and/or an uptick in growth prospects.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Revenue</b>	1233	1410	1543	1704	1689	1809	2067	2255	2194	
<b>Gross Profit</b>	748	823	866	945	914	993	1139	1236	1192	
<b>Gross Margin</b>	60.7%	58.4%	56.1%	55.5%	54.1%	54.9%	55.1%	54.8%	54.3%	
<b>SG&amp;A Exp.</b>	429	488	541	575	585	605	681	741	709	
<b>D&amp;A Exp.</b>	29	39	54	60	65	70	91	108	110	
<b>Operating Profit</b>	319	335	325	370	329	388	458	495	483	
<b>Op. Margin</b>	25.9%	23.8%	21.1%	21.7%	19.5%	21.5%	22.1%	21.9%	22.0%	
<b>Net Profit</b>	222	225	222	247	211	272	296	377	337	
<b>Net Margin</b>	18.0%	16.0%	14.4%	14.5%	12.5%	15.0%	14.3%	16.7%	15.4%	
<b>Free Cash Flow</b>	226	243	221	245	200	274	285	415	319	
<b>Income Tax</b>	92	101	89	106	90	97	124	71	94	

## Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Total Assets</b>	1304	1830	2053	2280	2360	2421	3415	3421	3516	
<b>Cash &amp; Equivalents</b>	37	41	42	42	50	67	90	96	151	
<b>Accounts Receivable</b>	235	309	292	347	373	415	491	476	531	
<b>Inventories</b>	142	170	198	211	226	220	264	264	283	
<b>Goodwill &amp; Int. Ass.</b>	669	1041	1208	1344	1360	1367	2136	2108		
<b>Total Liabilities</b>	733	1160	1165	1375	1700	1569	2259	1970	1935	
<b>Accounts Payable</b>	46	67	62	69	68	75	86	84		
<b>Long-Term Debt</b>	319	634	653	800	1117	983	1583	1314	1244	
<b>Shareholder's Equity</b>	571	670	888	905	660	852	1155	1451	1581	
<b>D/E Ratio</b>	0.56	0.95	0.74	0.88	1.69	1.15	1.37	0.91	0.79	

## Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Return on Assets</b>	19.4%	14.3%	11.4%	11.4%	9.1%	11.4%	10.1%	11.0%	9.7%	
<b>Return on Equity</b>	41.3%	36.2%	28.5%	27.5%	27.0%	36.0%	29.5%	29.0%	22.2%	
<b>ROIC</b>	29.5%	20.5%	15.6%	15.2%	12.1%	15.1%	12.9%	13.7%	12.1%	
<b>Shares Out.</b>	68.43	65.10	64.91	64.28	61.15	57.53	58.20	58.93	58.20	
<b>Revenue/Share</b>	18.02	21.65	23.77	26.51	27.61	31.44	35.51	38.26	37.70	
<b>FCF/Share</b>	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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