



Nordson Corporation (NDSN)

Updated February 25th, 2021 by Eli Inkrot

Key Metrics

Current Price:	\$193	5 Year CAGR Estimate:	0.0%	Market Cap:	\$11 B
Fair Value Price:	\$137	5 Year Growth Estimate:	6.0%	Ex-Dividend Date:	02/22/21
% Fair Value:	141%	5 Year Valuation Multiple Estimate:	-6.6%	Dividend Payment Date:	03/09/21
Dividend Yield:	0.8%	5 Year Price Target	\$183	Years Of Dividend Growth:	57
Dividend Risk Score:	A	Retirement Suitability Score:	C	Last Dividend Increase:	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 30th, 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 14th, 2020 Nordson increased its dividend from \$0.38 to \$0.39 per quarter, representing a 2.6% increase. This marks the company's 57th consecutive year of increasing its dividend.

On February 22nd, 2021 Nordson released Q1 fiscal year 2021 results for the period ending January 31st, 2021. (Nordson's fiscal year ends October 31st.) For the quarter the company reported \$527 million in sales, a 6.4% increase compared to Q1 2020, driven by strength in consumer non-durable and industrial end markets. The Industrial Precision Solutions segment saw sales increased 9.3%, while the Advanced Technology Solutions portion of the business was up 3.0%. Net income equaled \$77.6 million compared to \$52.0 million in the year ago period, while earnings-per-share equaled \$1.32 versus \$0.89 in Q1 2020.

Nordson's backlog entering the second quarter of 2021 equaled \$495 million, a 7% increase compared to last year.

Nordson also provided a 2021 outlook, anticipating 4% to 6% sales growth and earnings-per-share of \$6.30 to \$6.70.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$3.27	\$3.45	\$3.42	\$3.84	\$3.58	\$4.68	\$5.37	\$5.94	\$5.87	\$5.48	\$6.50	\$8.70
DPS	\$0.44	\$0.53	\$0.63	\$0.80	\$0.90	\$0.99	\$1.11	\$1.25	\$1.43	\$1.53	\$1.56	\$2.29
Shares¹	66	64	64	62	57	57	58	58	58	58	59	59

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 per management guidance.

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 long-term 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 using the midpoint of management's new guidance - \$6.50 per share – for 2021 earnings expectation. In addition, we are forecasting 6% intermediate term growth, driven by top line improvement and stable margins.

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	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	31.6	29.6	21.0
Avg. Yld.	0.9%	1.0%	0.9%	1.1%	1.2%	1.2%	0.9%	0.9%	1.1%	0.9%	0.8%	1.3%

Over the past decade shares of Nordson have traded at an average P/E ratio of about 21, 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 near 30 times earnings. Should shares return to 21 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

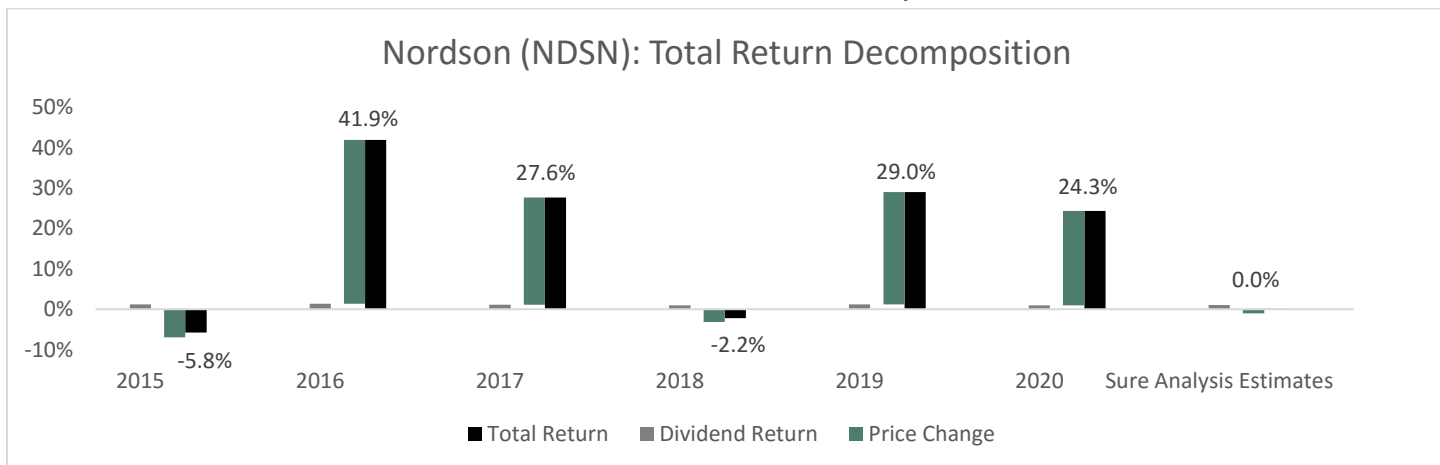
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	13%	15%	18%	21%	25%	21%	21%	21%	24%	28%	24%	26%

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, 2020 proved to be a down year, although recent guidance for 2021 has been encouraging.

Final Thoughts & Recommendation

Shares are more or less unchanged 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 effectively no annualized return in the next five years, 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.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	1233	1410	1543	1704	1689	1809	2067	2255	2194	2121
Gross Profit	748	823	866	945	914	993	1139	1236	1192	1130
Gross Margin	60.7%	58.4%	56.1%	55.5%	54.1%	54.9%	55.1%	54.8%	54.3%	53.3%
SG&A Exp.	429	488	541	575	585	605	681	741	709	694
D&A Exp.	29	39	54	60	65	70	91	108	110	113
Operating Profit	319	335	325	370	329	388	458	495	483	437
Op. Margin	25.9%	23.8%	21.1%	21.7%	19.5%	21.5%	22.1%	21.9%	22.0%	20.6%
Net Profit	222	225	222	247	211	272	296	377	337	250
Net Margin	18.0%	16.0%	14.4%	14.5%	12.5%	15.0%	14.3%	16.7%	15.4%	11.8%
Free Cash Flow	226	243	221	245	200	274	285	415	319	452
Income Tax	92	101	89	106	90	97	124	71	94	52

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	1304	1830	2053	2280	2360	2421	3415	3421	3516	3675
Cash & Equivalents	37	41	42	42	50	67	90	96	151	208
Accounts Receivable	235	309	292	347	373	415	491	476	531	445
Inventories	142	170	198	211	226	220	264	264	283	277
Goodwill & Int. Ass.	669	1041	1208	1344	1360	1367	2136	2108	2060	2121
Total Liabilities	733	1160	1165	1375	1700	1569	2259	1970	1935	1916
Accounts Payable	46	67	62	69	68	75	86	84	85	71
Long-Term Debt	319	634	653	800	1117	983	1583	1314	1244	1106
Shareholder's Equity	571	670	888	905	660	852	1155	1451	1581	1759
D/E Ratio	0.56	0.95	0.74	0.88	1.69	1.15	1.37	0.91	0.79	0.63

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	19.4%	14.3%	11.4%	11.4%	9.1%	11.4%	10.1%	11.0%	9.7%	6.9%
Return on Equity	41.3%	36.2%	28.5%	27.5%	27.0%	36.0%	29.5%	29.0%	22.2%	14.9%
ROIC	29.5%	20.5%	15.6%	15.2%	12.1%	15.1%	12.9%	13.7%	12.1%	8.8%
Shares Out.	68.43	65.10	64.91	64.28	61.15	57.53	58.20	58.93	58.20	58.47
Revenue/Share	18.02	21.65	23.77	26.51	27.61	31.44	35.51	38.26	37.70	36.27
FCF/Share	3.31	3.74	3.41	3.80	3.27	4.76	4.90	7.04	5.47	7.73

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

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