



Nordson Corporation (NDSN)

Updated December 21st, 2021 by Quinn Mohammed

Key Metrics

Current Price:	\$251	5 Year CAGR Estimate:	0.6%	Market Cap:	\$14.6B
Fair Value Price:	\$193	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	12/21/21
% Fair Value:	130%	5 Year Valuation Multiple Estimate:	-5.2%	Dividend Payment Date:	01/04/22
Dividend Yield:	0.8%	5 Year Price Target	\$246	Years Of Dividend Growth:	58
Dividend Risk Score:	A	Retirement Suitability Score:	C	Last Dividend Increase:	30.8%

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. On March 30th, 2020, Nordson announced that the company was reorganizing into two segments: Industrial Precision Solutions (IPS) and Advanced Technology Solutions (ATS). The \$14.6 billion market cap company generated \$2.1 billion in sales last year.

On August 30th, 2021, Nordson released fourth quarter and full year fiscal 2021 results for the period ending October 31st, 2021. (Nordson's fiscal year ends October 31st.) For the quarter the company reported sales of \$599 million, a 7% increase compared to Q4 2020, driven by organic volume growth. The Industrial Precision Solutions segment saw sales increase 2%, while the Advanced Technology Solutions portion of the business was up 14%. The company generated \$1.88 per diluted share, an 18% gain over the prior year's adjusted EPS.

For the full fiscal year, the company produced all time records in sales and EPS. Nordson's sales totaled \$2.4 billion, an 11% year-over-year increase. Additionally, NDSN produced \$7.74 per diluted share, a massive 41% increase from the prior year.

Nordson provided a 2022 outlook, anticipating sales to be up 6% to 10% and earnings-per-share growth of 8% to 18%, for a mid-point EPS of \$8.75 (13% YoY growth from fiscal 2021). We have updated our forecast accordingly.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$3.45	\$3.42	\$3.84	\$3.58	\$4.68	\$5.37	\$5.94	\$5.87	\$5.48	\$7.74	\$8.75	\$11.17
DPS	\$0.53	\$0.63	\$0.80	\$0.90	\$0.99	\$1.11	\$1.25	\$1.43	\$1.53	\$1.68	\$2.04	\$3.00
Shares¹	64	64	62	57	57	58	58	58	58	58	58.0	59.0

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 the company rebounded and is producing record results since 2021.

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, \$8.75 per share, for our 2022 earnings expectation. In addition, we are forecasting 5% growth off a higher base, 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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	15	20	19.5	21	17	22	22.7	22.8	31.6	28.8	28.7	21.0
Avg. Yld.	1.0%	0.9%	1.1%	1.2%	1.2%	0.9%	0.9%	1.1%	0.9%	0.7%	0.8%	1.3%

Over the past decade shares of Nordson have traded at an average P/E ratio of about 22, with the multiple picking up materially as of late. While we believe a premium valuation is fair considering the company's strong past and prospects, the current valuation is at a historically high level near 30 times earnings. Should shares return to 22 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

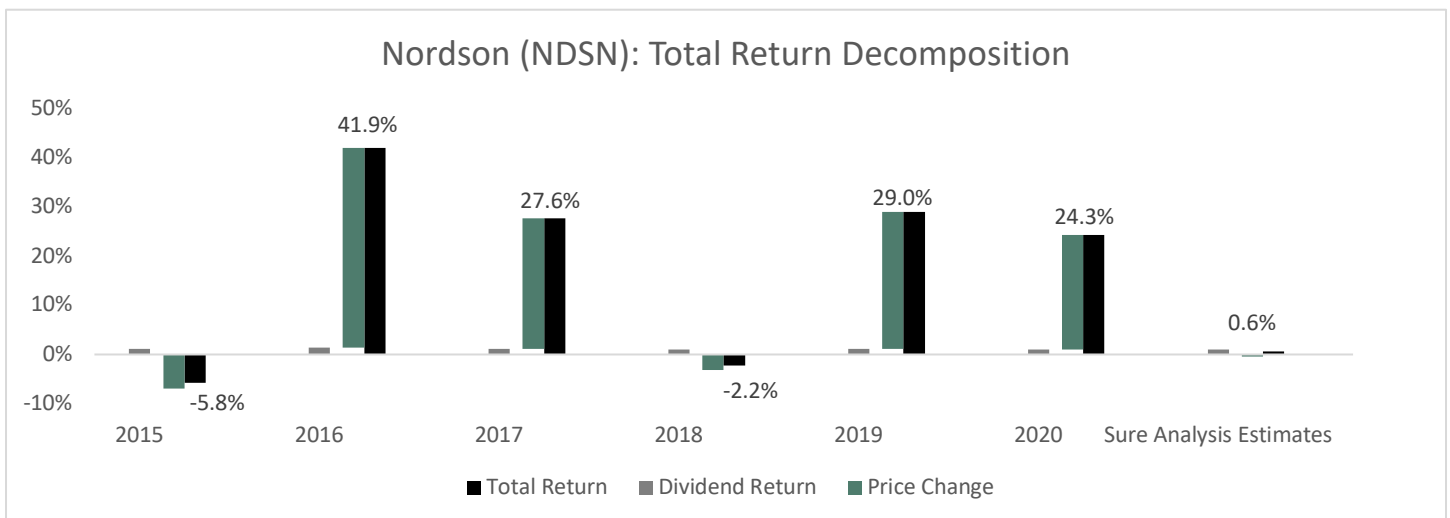
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2020	2022	2027
Payout	15%	18%	21%	25%	21%	21%	21%	24%	28%	22%	23%	27%

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, 2020 proved to be a down year, although fiscal 2021 results and 2022 guidance has been encouraging.

Final Thoughts & Recommendation

Shares are up 28% year-to-date. 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 a minor expected annualized return in the next five years of 0.6%, stemming from a 5% growth rate and a 0.8% dividend yield offset by the potential for a significant valuation headwind. Shares earn a sell rating due to the valuation.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	1410	1543	1704	1689	1809	2067	2255	2194	2121	2362
Gross Profit	823	866	945	914	993	1139	1236	1192	1130	1324
Gross Margin	58.4%	56.1%	55.5%	54.1%	54.9%	55.1%	54.8%	54.3%	53.3%	56.1%
SG&A Exp.	488	541	575	585	605	673	734	709	694	709
D&A Exp.	39	54	60	65	70	91	108	110	113	104
Operating Profit	335	325	370	329	388	466	503	483	437	615
Op. Margin	23.8%	21.1%	21.7%	19.5%	21.5%	22.6%	22.3%	22.0%	20.6%	26.0%
Net Profit	225	222	247	211	272	296	377	337	250	454
Net Margin	16.0%	14.4%	14.5%	12.5%	15.0%	14.3%	16.7%	15.4%	11.8%	19.2%
Free Cash Flow	243	221	245	200	274	285	415	319	452	508
Income Tax	101	89	106	90	97	124	71	94	52	120

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	1830	2053	2280	2360	2421	3415	3421	3516	3675	3791
Cash & Equivalents	41	42	42	50	67	90	96	151	208	300
Accounts Receivable	309	292	347	373	415	491	476	506	445	480
Inventories	170	198	211	226	220	264	264	283	277	327
Goodwill & Int. Ass.	1041	1208	1344	1360	1367	2136	2108	2060	2121	2071
Total Liabilities	1160	1165	1375	1700	1569	2259	1970	1935	1916	1632
Accounts Payable	67	62	69	68	75	86	84	85	71	92
Long-Term Debt	634	653	800	1117	983	1583	1314	1244	1106	816
Shareholder's Equity	670	888	905	660	852	1155	1451	1581	1759	2159
D/E Ratio	1.73	1.31	1.52	2.58	1.84	1.96	1.36	1.22	1.09	0.76

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	14.3%	11.4%	11.4%	9.1%	11.4%	10.1%	11.0%	9.7%	6.9%	12.2%
Return on Equity	36.2%	28.5%	27.5%	27.0%	36.0%	29.5%	29.0%	22.2%	14.9%	23.2%
ROIC	20.5%	15.6%	15.2%	12.1%	15.1%	12.9%	13.7%	12.1%	8.8%	15.6%
Shares Out.	64	64	62	57	57	58	58	58	58	58
Revenue/Share	21.65	23.77	26.51	27.61	31.44	35.51	38.26	37.70	36.27	40.22
FCF/Share	3.74	3.41	3.80	3.27	4.76	4.90	7.04	5.47	7.73	8.64

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

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