



Nordson Corporation (NDSN)

Updated December 19th, 2022 by Quinn Mohammed

Key Metrics

Current Price:	\$233	5 Year CAGR Estimate:	3.7%	Market Cap:	\$14 B
Fair Value Price:	\$217	5 Year Growth Estimate:	4.0%	Ex-Dividend Date¹:	12/19/22
% Fair Value:	108%	5 Year Valuation Multiple Estimate:	-1.5%	Dividend Payment Date²:	01/03/22
Dividend Yield:	1.1%	5 Year Price Target	\$264	Years Of Dividend Growth:	59
Dividend Risk Score:	A	Retirement Suitability Score:	B	Rating:	Hold

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 over 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 \$14 billion market cap company generated \$2.6 billion in sales last fiscal year.

On November 3rd, 2022, Nordson completed its acquisition of CyberOptics Corporation, expanding Nordson's product offering in the semiconductor and electronics industries. CyberOptics Corp. is a global developer and manufacturer of high-precision 3D optical sensing technology solutions.

On December 14th, Nordson released fourth quarter and FY 2022 results for the period ending October 31st, 2022. (Nordson's fiscal year ends October 31st.) For the quarter, the company reported sales of \$684 million, a 14% increase compared to Q4 2021, driven by organic volume growth of 18% and a favorable acquisition impact offset by unfavorable currency impacts. The Industrial Precision Solutions, Medical and Fluid Solutions, and Advanced Technology Solutions segments all saw sales increases of 13%, 11%, and 21%, respectively. The company generated \$2.44 per diluted share; a 30% increase compared to the same prior year period. For the full fiscal year 2022, Nordson achieved adjusted EPS of \$9.43, a 22% increase compared to \$7.74 for fiscal 2021.

The company is starting fiscal 2023 with a \$1 billion backlog, which includes the CyberOptics backlog. Management believes Nordson can deliver 1% to 7% sales growth in fiscal 2023 compared to fiscal 2022. Additionally, fiscal 2023 earnings per share are estimated to be \$8.75 to \$10.10, for a midpoint of \$9.43, which matches 2022 results.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$3.42	\$3.84	\$3.58	\$4.68	\$5.37	\$5.94	\$5.87	\$5.48	\$7.74	\$9.43	\$9.43	\$11.47
DPS	\$0.63	\$0.80	\$0.90	\$0.99	\$1.11	\$1.25	\$1.43	\$1.53	\$1.68	\$2.18	\$2.60	\$3.82
Shares³	64	62	57	57	58	58	58	58	58	58	58.0	58.0

From 2013 through 2022, Nordson grew earnings-per-share by a solid 11.9% annually. However, earnings dipped during the last recession and fell again in 2020, but the company rebounded sharply and produced impressive results in 2021 and 2022. 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

¹ Estimate

² Estimate

³ In millions.

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be a long-term tailwind. Additionally, with the acquisition of CyberOptics Corporation, Nordson has expanded its position in the semiconductor and electronics industries.

We are using the midpoint of management’s guidance, \$9.43 per share, for our 2023 earnings expectation. In addition, we are forecasting 4.0% growth off 2023 expectations, driven by top line improvement, small margin growth and a positive impact from acquisitions.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	20.0	19.5	21.0	17.0	22.0	22.7	22.8	31.6	28.8	26.9	24.8	22.5
Avg. Yld.	0.9%	1.1%	1.2%	1.2%	0.9%	0.9%	1.1%	0.9%	0.7%	0.9%	1.1%	1.5%

Over the past decade shares of Nordson have traded at an average P/E ratio of about 23, 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 still beyond our estimation of fair value. Should shares return to 23 times earnings, as has been more typical, this could create a 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

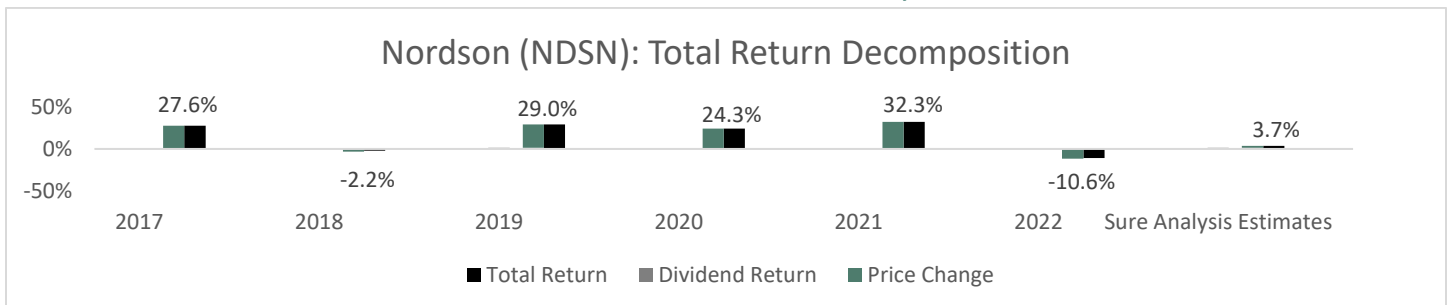
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	18%	21%	25%	21%	21%	21%	24%	28%	22%	23%	28%	33%

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, but fiscal 2021 and 2022 results were very strong, and 2023 guidance is encouraging.

Final Thoughts & Recommendation

Shares are down 7% 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 high level. We are forecasting a small expected annualized return in the next five years of 3.7%, stemming from a 4.0% growth rate and a 1.1% dividend yield offset by the potential for a valuation headwind. Shares earn a hold rating due to lackluster total returns expectations.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	1543	1704	1689	1809	2067	2255	2194	2121	2362	2590
Gross Profit	866	945	914	993	1139	1236	1192	1130	1324	1427
Gross Margin	56.1%	55.5%	54.1%	54.9%	55.1%	54.8%	54.3%	53.3%	56.1%	55.1%
SG&A Exp.	541	575	585	605	673	734	709	694	709	724
D&A Exp.	54	60	65	70	91	108	110	113	104	100
Operating Profit	325	370	329	388	466	503	483	437	615	702
Op. Margin	21.1%	21.7%	19.5%	21.5%	22.6%	22.3%	22.0%	20.6%	26.0%	27.1%
Net Profit	222	247	211	272	296	377	337	250	454	513
Net Margin	14.4%	14.5%	12.5%	15.0%	14.3%	16.7%	15.4%	11.8%	19.2%	19.8%
Free Cash Flow	221	245	200	274	285	415	319	452	508	462
Income Tax	89	106	90	97	124	71	94	52	120	136

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	2053	2280	2360	2421	3415	3421	3516	3675	3791	3820
Cash & Equivalents	42	42	50	67	90	96	151	208	300	163
Accounts Receivable	292	347	373	415	491	476	506	445	480	510
Inventories	198	211	226	220	264	264	283	277	327	383
Goodwill & Int. Ass.	1208	1344	1360	1367	2136	2108	2060	2121	2071	2134
Total Liabilities	1165	1375	1700	1569	2259	1970	1935	1916	1632	1526
Accounts Payable	62	69	68	75	86	84	85	71	92	99
Long-Term Debt	653	800	1117	983	1583	1314	1244	1106	816	738
Shareholder's Equity	888	905	660	852	1155	1451	1581	1759	2159	2294
D/E Ratio	1.31	1.52	2.58	1.84	1.96	1.36	1.22	1.09	0.76	0.32

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	11.4%	11.4%	9.1%	11.4%	10.1%	11.0%	9.7%	6.9%	12.2%	13.5%
Return on Equity	28.5%	27.5%	27.0%	36.0%	29.5%	29.0%	22.2%	14.9%	23.2%	23.0%
ROIC	15.6%	15.2%	12.1%	15.1%	12.9%	13.7%	12.1%	8.8%	15.6%	17.1%
Shares Out.	64	62	57	57	58	58	58	58	58	58
Revenue/Share	23.77	26.51	27.61	31.44	35.51	38.26	37.70	36.27	40.22	44.47
FCF/Share	3.41	3.80	3.27	4.76	4.90	7.04	5.47	7.73	8.64	7.93

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

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