



# Tennant Company (TNC)

Updated February 28<sup>th</sup>, 2023 by Jonathan Weber

## Key Metrics

<b>Current Price:</b>	\$71	<b>5 Year CAGR Estimate:</b>	8.1%	<b>Market Cap:</b>	\$1.3B
<b>Fair Value Price:</b>	\$74	<b>5 Year Growth Estimate:</b>	6.0%	<b>Ex-Dividend Date:</b>	03/02/23 <sup>1</sup>
<b>% Fair Value:</b>	96%	<b>5 Year Valuation Multiple Estimate:</b>	0.8%	<b>Dividend Payment Date:</b>	03/15/23 <sup>2</sup>
<b>Dividend Yield:</b>	1.5%	<b>5 Year Price Target</b>	\$99	<b>Years Of Dividend Growth:</b>	52
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	B	<b>Rating:</b>	Hold

## Overview & Current Events

Tennant Company is a machinery company that produces cleaning products and that offers cleaning solutions to its customers. In the US, the company holds the market leadership position in its industry, but the company also sells its products in more than 100 additional countries around the globe. Tennant was founded in 1870.

Tennant Company reported its fourth quarter earnings results on February 23. The company announced that it generated revenues of \$290 million during the quarter, which was 5% more than the top line number from the previous year's quarter. This was a reversal from recent trends, as revenue had declined on a year-over-year basis during the previous quarter. Revenues also were up on a sequential basis during the period.

Tennant Company generated adjusted earnings-per-share of \$1.46 during the fourth quarter, which was more than what the analyst community had forecasted, and which was up compared to the previous year's quarter. Management is currently forecasting that adjusted earnings-per-share will fall into a range of \$3.70 to \$4.50 in 2023, which could indicate that results will be relatively flat this year. At the midpoint of the guidance range, \$4.10, Tennant's earnings-per-share would be unchanged versus 2022. The company increased its dividend by 6% in February.

## Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
<b>EPS</b>	\$2.26	\$2.70	\$2.49	\$2.59	\$1.54	\$2.17	\$3.78	\$2.91	\$4.39	\$4.10	<b>\$4.10</b>	<b>\$5.49</b>
<b>DPS</b>	\$0.72	\$0.78	\$0.80	\$0.81	\$0.84	\$0.85	\$0.88	\$0.92	\$0.94	\$1.00	<b>\$1.06</b>	<b>\$1.35</b>
<b>Shares<sup>3</sup></b>	18.5	18.4	17.7	17.7	17.9	18.3	18.6	18.6	18.8	18.7	<b>18.5</b>	<b>18.0</b>

Tennant Company's earnings-per-share were quite lumpy over the last decade. Overall, the trend pointed upwards, but there were a lot of ups and downs; the company has not been able to grow its earnings consistently. During the last financial crisis Tennant Company's earnings-per-share were roughly cut in half, from \$1.35 in 2008 to \$0.65 in 2009. The company was able to recover quickly from the impact of the last financial crisis.

Between 2010 and 2021, Tennant Company recorded an average annual earnings-per-share growth rate of 7%. Tennant Company's earnings-per-share saw some ups and downs in that time frame, however, such as in 2017, when profits were down considerably versus the previous year. Tennant Company has plans to grow its sales inorganically, especially in the Asia/Pacific region, where it benefits from above-average market growth rates. The takeover of Chinese cleaning equipment company Gaomei improves Tennant's sales outlook in the Chinese market, as well as in other Asian markets, over the next couple of years. As the coronavirus impact wanes, synergies from this acquisition and other moves to bolster the overall profitability and the business in Asia will increasingly pay off and should deliver attractive earnings growth for Tennant. Tennant Company felt a considerable impact from the pandemic in 2020, when earnings-per-share were down by roughly 25% versus pre-pandemic levels. That was more than balanced out by a steep increase in the company's profitability in 2021, however, as that was a new record year for the company.

<sup>1</sup> Estimated date

<sup>2</sup> Estimated date

<sup>3</sup> In Millions

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## Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	23.8	25.1	25.1	22.7	44.9	24.0	22.1	24.1	18.5	15.1	17.3	18.0
Avg. Yld.	1.3%	1.1%	1.3%	1.4%	1.2%	1.7%	1.1%	1.3%	1.2%	1.6%	1.5%	1.4%

Tennant Company has been valued at high multiples throughout the last decade. This is somewhat surprising, as Tennant Company is not an ultra-high-quality company. Its growth has been solid, but not outstanding. We believe that an earnings multiple of more than 20 is not justified. Based on our earnings-per-share estimate, shares are trading slightly below what we deem a fair valuation for the company, following a share price increase since our last update.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	31.9%	28.9%	32.1%	31.3%	45.5%	39.2%	23.3%	31.6%	21.4%	24.4%	25.9%	24.7%

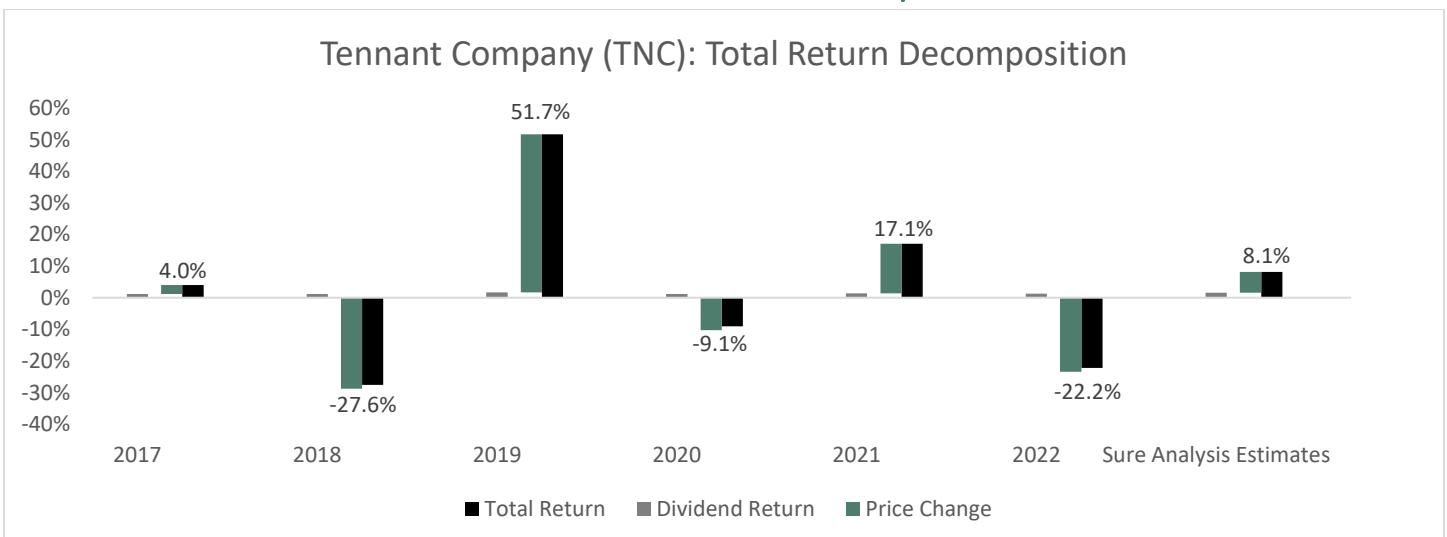
Tennant Company's dividend payout ratio was quite high during the last financial crisis, due to the company's below-average profitability during that time. Since then, the payout ratio has declined to a quite sustainable level. It seems unlikely that Tennant Company could be forced to cut its dividend, but due to its relatively low dividend yield Tennant nevertheless does not look like an attractive income stock; it is more of a capital appreciation play.

Tennant Company is the leader in the US cleaning machines market. This serves as a competitive advantage, as Tennant Company's market leadership allows for better economics of scale and a superior sales network compared to its peers. During the last financial crisis, Tennant remained profitable, but its earnings still suffered considerably. Tennant therefore has exposure to economic downturns, which was also visible in 2020's results, as the coronavirus impact resulted in below-average sales and profits during 2020. We do not believe that this will be a long-lasting issue.

## Final Thoughts & Recommendation

Tennant Company is the leader in the niche market that the company serves. Organic growth in China could allow for a solid growth outlook over the coming years, which is why we forecast a mid-single digit earnings-per-share growth rate over the coming years. Following a strong 2021, Tennant was less profitable in 2022, and 2023 will likely be comparable. Tennant shares promise solid but not great total returns, which is why we rate them a hold at current prices.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Revenue</b>	752	822	812	809	1,003	1,124	1,138	1,001	1,091	1,092
<b>Gross Profit</b>	326	352	349	352	400	445	462	408	438	421
<b>Gross Margin</b>	43.3%	42.9%	43.0%	43.5%	39.9%	39.6%	40.6%	40.7%	40.2%	38.5%
<b>SG&amp;A Exp.</b>	233	251	252	249	335	356	357	314	322	306
<b>D&amp;A Exp.</b>	20	20	18	18	43	54	54	53	53	49
<b>Operating Profit</b>	62	72	64	68	33	58	72	64	84	84
<b>Operating Margin</b>	8.3%	8.8%	7.9%	8.4%	3.3%	5.2%	6.3%	6.4%	7.7%	7.6%
<b>Net Profit</b>	40	51	32	47	(6)	33	46	34	65	66
<b>Net Margin</b>	5.3%	6.2%	4.0%	5.8%	-0.6%	3.0%	4.0%	3.4%	5.9%	6.1%
<b>Free Cash Flow</b>	45	40	20	31	31	58	33	104	46	(54)
<b>Income Tax</b>	20	19	18	20	5	2	8	7	9	13

## Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Total Assets</b>	456	487	432	470	994	993	1,063	1,083	1,062	1,085
<b>Cash &amp; Equivalents</b>	81	93	51	58	58	86	75	141	124	78
<b>Accounts Receivable</b>	135	147	136	145	203	208	217	200	211	252
<b>Inventories</b>	67	81	77	79	128	135	150	128	161	207
<b>Goodwill &amp; Int. Ass.</b>	38	34	20	28	358	329	333	334	291	258
<b>Total Liabilities</b>	192	206	180	191	696	676	702	677	627	613
<b>Accounts Payable</b>	53	62	50	47	96	98	94	106	122	126
<b>Long-Term Debt</b>	32	28	25	36	377	355	339	308	268	300
<b>Shareholder's Equity</b>	264	281	252	279	297	314	360	405	434	471
<b>LTD/E Ratio</b>	0.12	0.10	0.10	0.13	1.27	1.13	0.94	0.76	0.62	0.64

## Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Return on Assets</b>	9.2%	10.7%	7.0%	10.3%	-0.8%	3.4%	4.5%	3.1%	6.1%	6.2%
<b>Return on Equity</b>	16.1%	18.6%	12.0%	17.6%	-2.2%	10.9%	13.6%	8.8%	15.5%	14.7%
<b>ROIC</b>	14.3%	16.8%	11.0%	15.8%	-1.3%	5.0%	6.7%	4.8%	9.2%	9.0%
<b>Shares Out.</b>	18.5	18.4	17.7	17.7	17.9	18.3	18.6	18.6	18.8	18.7
<b>Revenue/Share</b>	39.93	43.86	43.90	44.98	56.69	61.26	61.65	53.72	57.87	58.42
<b>FCF/Share</b>	2.39	2.12	1.11	1.74	1.77	3.18	1.79	5.57	2.45	(2.91)

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

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