Standex International (SXI)

Updated February 4[th][th], 2024 by Quinn Mohammed

Key Metrics

Current Price:	$149	**5 Year CAGR Estimate:**	6.8%	**Market Cap:**	$1.8 B
Fair Value Price:	$136	**5 Year Growth Estimate:**	8.0%	**Ex-Dividend Date[1]:**	02/09/24
% Fair Value:	110%	**5 Year Valuation Multiple Estimate:**	-1.9%	**Dividend Payment Date[1]:**	02/26/24
Dividend Yield:	0.8%	**5 Year Price Target**	$200	**Years Of Dividend Growth:**	13
Dividend Risk Score:	C	**Retirement Suitability Score:**	F	**Rating:**	Hold

Overview & Current Events

Standex International (SXI) is a company that manufactures and sells various products in the U.S. and internationally. The business operates through five segments: Electronics, Engraving, Scientific, Engineering Technologies, and Specialty Solutions. The Electronics segment makes components that are used across a variety of end markets. Engraving sells engraving services to transportation, consumer, and industrial businesses. Scientific sells medical-grade refrigerators to medical and pharmaceutical businesses. Engineering Technologies sells aerospace components like fuel tanks and heat shields to aviation and space businesses. Lastly, Specialty Solutions sells products to construction and truck companies. All in all, the business sells a variety of industrial components across a diverse range of industries.

On October 26th, 2023, Standex announced a 7.1% year-over-year dividend increase to $0.30 per share quarterly.

On July 31st, 2023, Standex announced it acquired Minntronix for $30 million in cash. Minntronix designs and manufactures magnetic components and products, such as transformers, inductors, current sensors, coils, chokes, and filters. This will expand Standex's presence in 5G, smart grid, and industrial automation.

On November 1st, 2023, the company announced its agreement to acquire Sanyu Switch Co., Ltd, with a closing date before January 31, 2024. It is a designer and manufacturer of reed relays, test sockets, and other electronics manufacturing and switch applications.

On February 1st, 2024, Standex International reported second quarter fiscal 2024 results for the period ending December 31st, 2023. Net sales decreased 5.0% compared to the second quarter of fiscal 2023, to $178.4 million. Standex generated $1.78 in adjusted earnings per share in the quarter, up 2.3% year-over-year.

Adjusted operating margin increased by 90 basis points year-over-year to 16.1%. In the quarter, Standex repurchased 33.5K shares for $4.5 million.

Management reaffirms that by fiscal year 2028, Standex could produce annual organic revenue growth at a high-single-digit rate, an adjusted operating margin over 19%, a return on invested capital above 15%, and a free cash flow conversion target ratio of roughly 100% of GAAP net income.

For Q3 of fiscal 2024, leadership expects Standex to generate slightly higher sequential revenue due to some recovery in Electronics and Specialty, as well the acquisition of Sanyu.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$3.90	$4.56	$4.59	$4.55	$5.17	$4.03	$3.49	$4.60	$5.87	$6.70	***$7.55***	***$11.09***
DPS	$0.38	$0.46	$0.54	$0.62	$0.70	$0.78	$0.86	$0.94	$1.04	$1.12	***$1.20***	***$1.76***
Shares	13.0	13.0	13.0	13.0	13.0	12.0	12.0	12.0	12.0	12.0	***12.0***	***12.0***

Over the past five and nine years, Standex has seen earnings-per-share grow by 5.3% and 6.2% annually, respectively. For the full fiscal year 2024, we expect $7.55 in earnings-per-share and forecast that the company can grow earnings-per-share at 8% annually after FY 2024, which guides our FY 2029 earnings-per-share estimate of $11.09.

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[1] Estimated Date.

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In the past few years, the business has gone through a series of acquisitions and divestitures aimed at bringing more profitable businesses into the company's portfolio. With the acquisition and divestitures of multiple businesses, the company restructured its segments from fiscal year 2019 to 2020, retiring Food Service Equipment and Hydraulics as historical segments, and reporting under Specialty Solutions and Scientific as new segments. The business' acquisition strategy revolves around divesting low margin businesses and acquiring high margin businesses that fit the company's core competencies (such as its recent acquisition of Minntronix and upcoming acquisition of Sanyu Switch Co.).

Over the past five and nine years, the company has increased the dividend per share by 7.5% and 12.8% annually. Over the next 5 years, we forecast that the business will grow the dividend at 8% annually. Standex International has increased the dividend payment for 13 consecutive years and has paid dividends for an impressive 58 consecutive years.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	15.7	16.7	17.2	19.7	19.2	20.8	18.9	17.3	15.6	19.0	***19.8***	***18.0***
Avg. Yld.	0.6%	0.6%	0.7%	0.7%	0.7%	0.9%	1.3%	1.2%	1.1%	0.8%	***0.8%***	***0.9%***

Over the past five and nine years, Standex International has averaged a P/E ratio of 18.3 and 18.0, respectively. We estimate that a P/E ratio of about 18.0 is fair for the business as it posts record operating margins and strong earnings. As a result, shares appear to be overvalued. Today, the stock offers a low but growing 0.8% dividend yield.

Safety, Quality, Competitive Advantage, & Recession Resiliency

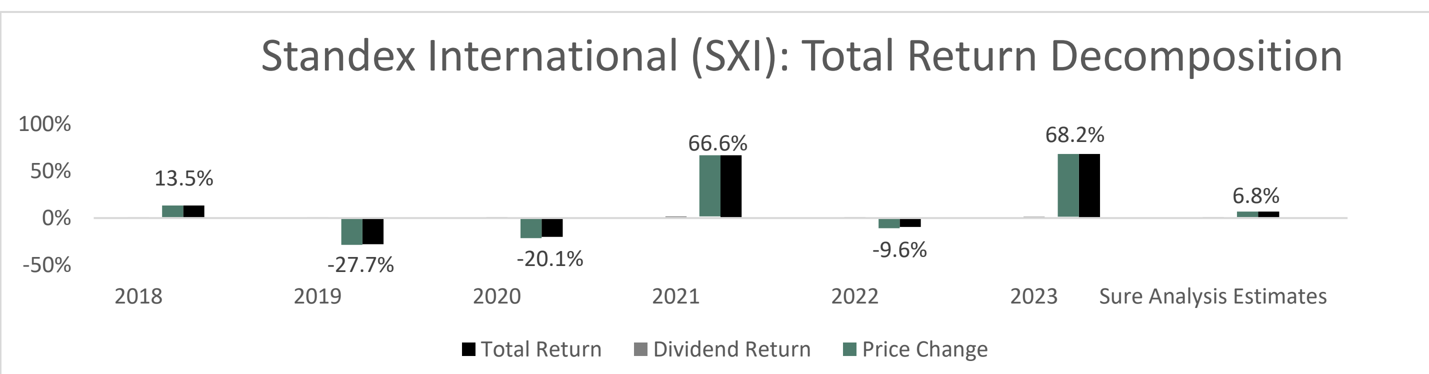
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	10%	10%	12%	14%	14%	19%	25%	20%	18%	17%	***16%***	***16%***

The business has averaged a very low payout ratio of 20% over the past 5 years. With the company's low payout ratio and strong history, we expect the dividend to continue to be safe over the intermediate term, and we believe the dividend has ample room to grow. Additionally, the business has an excellent balance sheet, with $436 million in current assets (~$142 million of that as cash) compared to $149 million in long-term debt. We think the business has competitive advantages within its individual segments, where the company is the best in its niche. We believe the business has strong recession resiliency as revenues and earnings recovered swiftly following COVID.

Final Thoughts & Recommendation

Standex International is a growing diversified industrial business. Today, the company is seeing its highest operating margins in company history. Shares of Standex earn a hold rating and we forecast total annualized return prospects of 6.8%, driven by 8.0% earnings growth, a 0.8% dividend yield, partly offset by a valuation headwind.

Total Return Breakdown by Year



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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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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	716	772	752	648	596	640	605	656	735	741
Gross Profit	238	247	252	216	226	235	215	241	270	285
Gross Margin	33.3%	32.1%	33.6%	33.3%	38.0%	36.7%	35.6%	36.8%	36.7%	38.5%
SG&A Exp.	166	166	170	145	141	150	148	163	170	172
D&A Exp.	15	17	18	18	25	29	32	33	30	28
Operating Profit	76	82	75	71	85	84	67	78	94	113
Op. Margin	10.6%	10.6%	9.9%	10.9%	14.3%	13.1%	11.1%	11.9%	12.8%	15.2%
Net Profit	43	55	52	47	37	68	20	36	61	139
Net Margin	6.0%	7.1%	6.9%	7.2%	6.1%	10.6%	3.3%	5.6%	8.3%	18.8%
Free Cash Flow	51	41	62	38	41	41	26	62	54	67
Income Tax	18	21	16	12	38	19	13	14	20	25

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	578	659	690	868	917	922	931	962	934	1,025
Cash & Equivalents	74	96	122	89	110	93	119	136	105	196
Acc. Receivable	108	110	104	127	120	103	98	110	117	123
Inventories	97	108	105	119	104	76	85	92	105	99
Goodwill & Int.	157	193	198	345	297	393	378	377	354	340
Total Liabilities	237	310	320	459	466	458	469	456	435	417
Accounts Payable	85	81	77	96	79	54	55	75	75	69
Long-Term Debt	45	102	92	192	194	198	199	199	175	173
Total Equity	341	349	370	409	451	464	462	506	499	607
LTD/E Ratio	0.13	0.29	0.25	0.47	0.43	0.43	0.43	0.39	0.35	0.29

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	7.9%	8.8%	7.7%	6.0%	4.1%	7.4%	2.2%	3.9%	6.5%	14.2%
Return on Equity	13.6%	15.9%	14.5%	12.0%	8.5%	14.8%	4.4%	7.5%	12.2%	25.1%
ROIC	11.8%	13.1%	11.4%	8.8%	5.9%	10.4%	3.1%	5.3%	8.9%	19.1%
Shares Out.	13	13	13	13	13	12	12	12	12	12
Revenue/Share	56.05	60.30	58.79	50.74	46.57	50.66	48.80	53.54	60.66	61.71
FCF/Share	4.03	3.24	4.89	2.97	3.23	3.23	2.08	5.04	4.44	5.54

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