



Nordson Corporation (NDSN)

Updated March 3rd by Quinn Mohammed

Key Metrics

Current Price:	\$266	5 Year CAGR Estimate:	8.3%	Market Cap:	\$15 B
Fair Value Price:	\$246	5 Year Growth Estimate:	9.0%	Ex-Dividend Date¹:	02/16/24
% Fair Value:	108%	5 Year Valuation Multiple Estimate:	-1.6%	Dividend Payment Date²:	03/05/24
Dividend Yield:	1.0%	5 Year Price Target	\$379	Years Of Dividend Growth:	60
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 \$15 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 February 21st, 2024, Nordson reported first quarter results for the period ending January 31st, 2024. (Nordson's fiscal year ends October 31st.) For the quarter, the company reported sales of \$633 million, a 4% increase compared to Q1 2023, driven by a positive acquisition impact, offset by organic decrease of 2%. The Industrial Precision and Medical and Fluid Solutions saw sales increase by 14% and 3%, respectively, while the Advanced Technology Solutions segment had sales declines of (18%). The company generated adjusted earnings per share of \$2.21, a 3% increase compared to the same prior year period.

The company's backlog equaled \$750 million at the end of the first quarter. Management reduced the top end of its sales growth guidance to 4% to 7% (from 4% to 9% previously) for fiscal 2024 compared to fiscal 2023. Additionally, Nordson expects adjusted EPS for FY 2024 to be \$10.00 to \$10.50.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$3.84	\$3.58	\$4.68	\$5.37	\$5.94	\$5.87	\$5.48	\$7.74	\$9.43	\$9.03	\$10.25	\$15.77
DPS	\$0.80	\$0.90	\$0.99	\$1.11	\$1.25	\$1.43	\$1.53	\$1.68	\$2.18	\$2.63	\$2.72	\$4.38
Shares³	62	57	57	58	58	58	58	58	58	58	58	58

From 2014 through 2023, Nordson grew earnings-per-share by a solid 10% 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 outlines an investment thesis for itself, citing best-in-class technology that boosts client output while lowering costs, a worldwide service model, a balanced income stream, and an exceptional 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.

¹ Estimate

² Estimate

³ 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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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, \$10.25 per share, for our FY 2024 earnings expectation. In addition, we are forecasting 9% growth off 2024 expectations into 2029, driven by top line improvement, small margin growth and a positive impact from acquisitions.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	19.5	21.0	17.0	22.0	22.7	22.8	31.6	28.8	26.9	26.3	26.0	24.0
Avg. Yld.	1.1%	1.2%	1.2%	0.9%	0.9%	1.1%	0.9%	0.7%	0.9%	1.1%	1.0%	1.2%

Over the past decade, shares of Nordson have traded at an average P/E ratio of about 24, 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 above our estimation of fair value. Should shares return to 24 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

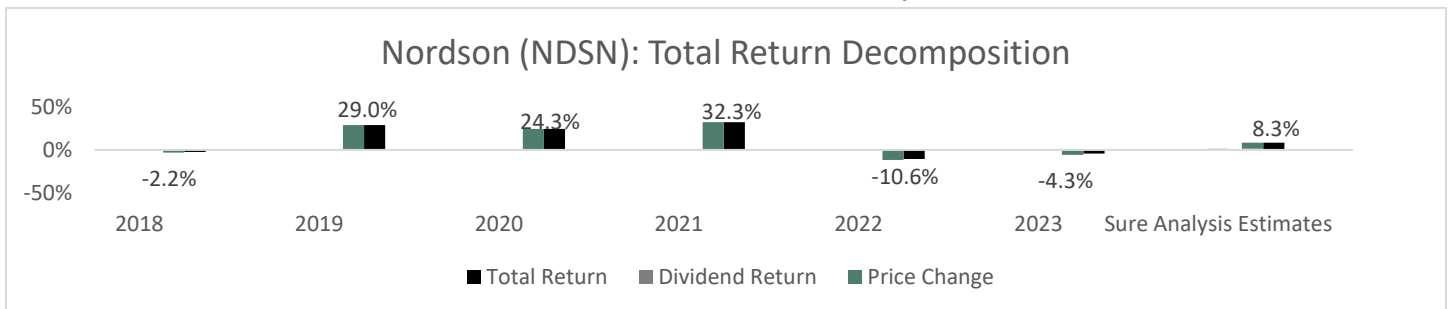
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	21%	25%	21%	21%	21%	24%	28%	22%	23%	29%	27%	28%

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.

Final Thoughts & Recommendation

Shares are up nearly 1% year-to-date, which compares unfavorably to the S&P 500 Index’s 8% increase. 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. We are forecasting an annualized total return in the next five years of 8.3%, stemming from a 9% EPS growth rate and a 1.0% dividend yield, partly offset by a -1.6% valuation headwind. Shares continue to earn a hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	1704	1689	1809	2067	2255	2194	2121	2362	2590	2629
Gross Profit	945	914	993	1139	1236	1192	1130	1324	1427	1425
Gross Margin	55.5%	54.1%	54.9%	55.1%	54.8%	54.3%	53.3%	56.1%	55.1%	54.2%
SG&A Exp.	575	585	605	673	734	709	694	709	724	753
D&A Exp.	60	65	70	91	108	110	113	104	100	112
Operating Profit	370	329	388	466	503	483	437	615	702	673
Op. Margin	21.7%	19.5%	21.5%	22.6%	22.3%	22.0%	20.6%	26.0%	27.1%	25.6%
Net Profit	247	211	272	296	377	337	250	454	513	487
Net Margin	14.5%	12.5%	15.0%	14.3%	16.7%	15.4%	11.8%	19.2%	19.8%	18.5%
Free Cash Flow	245	200	274	285	415	319	452	508	462	607
Income Tax	106	90	97	124	71	94	52	120	136	128

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	2280	2360	2421	3415	3421	3516	3675	3791	3820	5252
Cash & Equivalents	42	50	67	90	96	151	208	300	163	116
Accounts Receivable	347	373	415	491	476	506	445	480	510	548
Inventories	211	226	220	264	264	283	277	327	383	455
Goodwill & Int. Ass.	1344	1360	1367	2136	2108	2060	2121	2071	2134	3457
Total Liabilities	1375	1700	1569	2259	1970	1935	1916	1632	1526	2654
Accounts Payable	69	68	75	86	84	85	71	92	99	106
Long-Term Debt	800	1117	983	1583	1314	1244	1106	816	738	1737
Shareholder's Equity	905	660	852	1155	1451	1581	1759	2159	2294	2598
D/E Ratio	1.52	2.58	1.84	1.96	1.36	1.22	1.09	0.76	0.32	0.67

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	11.4%	9.1%	11.4%	10.1%	11.0%	9.7%	6.9%	12.2%	13.5%	10.8%
Return on Equity	27.5%	27.0%	36.0%	29.5%	29.0%	22.2%	14.9%	23.2%	23.0%	19.9%
ROIC	15.2%	12.1%	15.1%	12.9%	13.7%	12.1%	8.8%	15.6%	17.1%	13.2%
Shares Out.	62	57	57	58	58	58	58	58	58	58
Revenue/Share	26.51	27.61	31.44	35.51	38.26	37.70	36.27	40.22	44.47	45.61
FCF/Share	3.80	3.27	4.76	4.90	7.04	5.47	7.73	8.64	7.93	10.53

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

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