Kadant Inc. (KAI)

Updated February 18th, 2025, by Kody Kester

Key Metrics

Current Price:	$398	**5 Year CAGR Estimate:**	2.1%	**Market Cap:**	$4.7B
Fair Value Price:	$269	**5 Year Growth Estimate:**	10.0%	**Ex-Dividend Date[1]:**	04/08/25
% Fair Value:	148%	**5 Year Valuation Multiple Estimate:**	-7.6%	**Dividend Payment Date:**	05/07/25
Dividend Yield:	0.3%	**5 Year Price Target**	$434	**Years Of Dividend Growth:**	11
Dividend Risk Score:	C	**Retirement Suitability Score:**	F	**Rating:**	Hold

Overview & Current Events

Kadant Inc. is a supplier of technologies and engineered systems worldwide. In 1991, the company (then Thermo Fibertek Inc.) was incorporated as a wholly owned subsidiary of Thermo Electron (now Thermo Fisher Scientific). Nine years later, Thermo opted to spin off the business to prioritize its scientific instruments business. In August 2001, the spinoff to become a completely independent company was completed.

KAI operates in the following three segments:

1. Flow Control: This segment designs, manufactures, and markets fluid-handling systems and equipment, including syphons, rotary joints, and turbulator bars. The segment also sells doctoring, cleaning, and filtration systems like doctor blades, cleaning shower and fabric-conditioning systems, and water filtration systems. These products are purchased by customers from the packaging, food, and metals industries. The segment contributed 35% of KAI's $1.05 billion in total 2024 revenue.
2. Industrial Processing: This segment develops, manufactures, and sells chippers, industrial automation and control systems, and recycling and approach flow systems. Products are sold to customers in the packaging, tissue, wood products, and alternative fuel industries. The segment made up another 41% of the company's total 2024 revenue.
3. Material Handling: The Material Handling segment designs, manufactures, and markets conveying and vibratory equipment to the mining, food processing, packaging, and paper industries. This segment chipped in the remaining 24% of the total 2024 revenue.

On February 12th, KAI shared its fourth-quarter earnings report for the period ended December 28th, 2024. The company's total revenue rose by 8.1% year-over-year to $258 million during the quarter. Flow Control segment revenue climbed 8.3% over the year-ago period to $94.7 million in the quarter. Strong performance in North America more than canceled out weaker performance in Europe. KAI's Industrial Processing segment revenue jumped by 16.6% year-over-year to $101.4 million for the quarter. That was due to the company's acquisition of the engineered knife systems company called Key Knife completed in January 2024. These topline gains were partially offset by a 3.7% decline over the year-ago period in Material Handling segment revenue to $61.9 million during the quarter. KAI's adjusted diluted EPS fell by 6.6% to $2.25 in the quarter. This was $0.20 better than the analyst consensus for the quarter.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
EPS	$3.13	$3.10	$4.49	$5.34	$5.36	$5.00	$7.83	$9.24	$10.04	$10.28	***$10.36***	***$16.68***
DPS	$0.66	$0.74	$0.82	$0.87	$0.91	$0.95	$0.99	$1.03	$1.13	$1.25	***$1.28***	***$2.06***
Shares[2]	10.8	10.9	11.0	11.1	11.4	11.5	11.6	11.7	11.7	11.8	***11.8***	***12.1***

[1] Estimate
[2] Share count is in millions.

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In the past 10 years, KAI's adjusted EPS has compounded at a low-teens rate annually. In the years to come, we continue to believe that adjusted diluted EPS can grow by 10% annually. KAI has plenty of room to grow adjusted diluted EPS further through a combination of acquisitions and organic growth over a complete economic cycle.

Valuation Analysis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Avg. P/E	13.0	19.7	22.4	15.2	20.2	28.2	29.4	19.2	27.9	33.6	***38.5***	***26.0***
Avg. Yld.	1.6%	1.2%	0.8%	1.1%	0.8%	0.7%	0.4%	0.6%	0.4%	0.4%	***0.3%***	***0.5%***

Since 2015, KAI's P/E ratio has ranged from the low teens into the low 30s. The 10-year average P/E ratio over that time was 22.9. In the past five years, it has been 27.7. In the years ahead, we believe that a multiple of around 26 is warranted. The current P/E ratio of 38.5 is substantially higher than our fair value multiple.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	21%	24%	18%	16%	17%	19%	13%	11%	11%	12%	***12%***	***12%***

KAI possesses several factors that set it apart from its peers. These include a worldwide customer base, a reputation for high-performance, high-reliability products, product innovation, and competitive pricing.

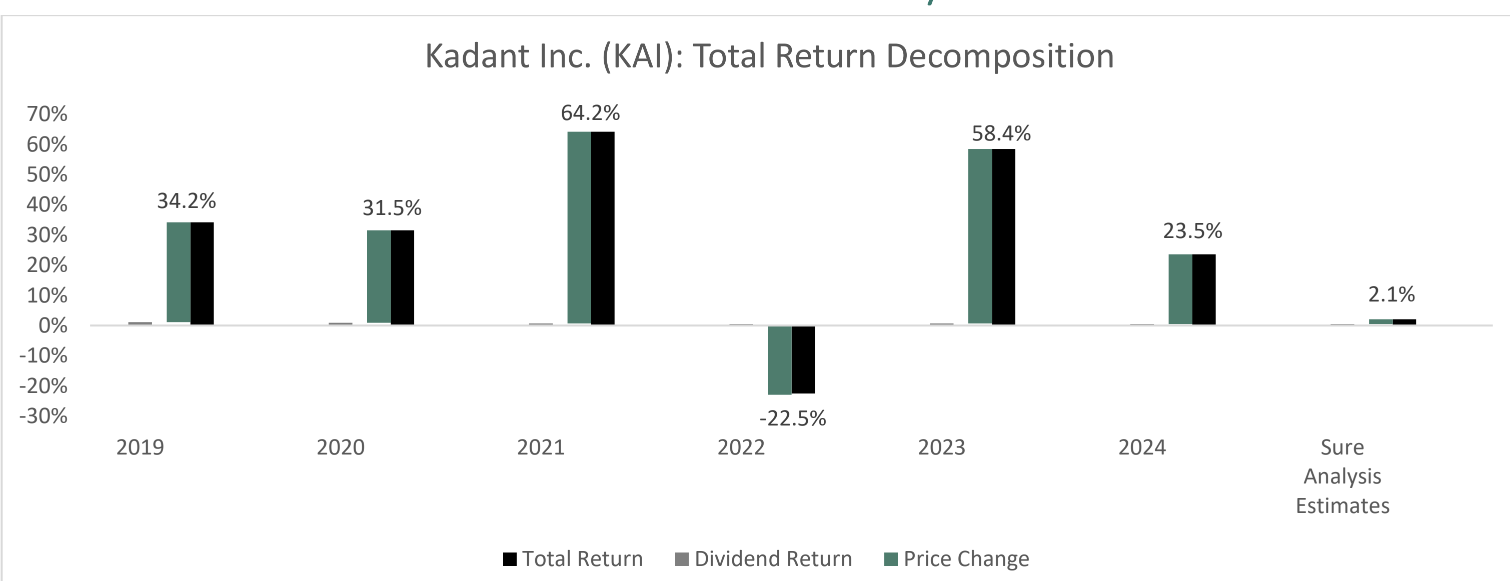
For an industrial firm, KAI consistently grows its adjusted EPS. Even when earnings have declined, the company hasn't experienced a double-digit percentage drop in adjusted EPS. This has enabled it to bounce back quickly after any temporary decrease in earnings.

KAI's interest coverage ratio of 9.5x in 2024 also indicates that the company is financially stable. The payout ratio also remains poised to be in the low-double digits in 2025. That puts KAI's dividend in a position to keep rising over the next few years.

Final Thoughts & Recommendation

KAI's 0.3% dividend yield, 10.0% annual adjusted EPS growth potential, and 7.6% annual valuation multiple contraction could generate 2.1% annual total returns over the next five years. The current valuation still looks quite elevated, so returns are likely to be more modest than they have been in recent years. Thus, we're standing by our 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	402	390	414	515	634	705	635	787	905	958
Gross Profit	178	180	189	231	278	294	277	337	390	416
Gross Margin	44.4%	46.2%	45.5%	44.9%	43.9%	41.7%	43.7%	42.9%	43.1%	43.5%
SG&A Exp.	129	123	135	160	177	193	182	209	224	236
D&A Exp.	11	11	14	19	24	32	31	34	35	33
Operating Profit	43	51	46	62	90	90	84	117	152	166
Operating Margin	10.7%	13.0%	11.2%	12.0%	14.3%	12.8%	13.2%	14.9%	16.8%	17.4%
Net Profit	29	34	32	31	60	52	55	84	121	116
Net Margin	7.1%	8.8%	7.7%	6.0%	9.5%	7.4%	8.7%	10.7%	13.4%	12.1%
Free Cash Flow	44	35	45	48	46	87	85	150	74	134
Income Tax	12	15	12	26	18	16	18	27	44	42

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	414	415	471	761	726	939	928	1,132	1,150	1,176
Cash & Equivalents	45	66	71	75	46	67	66	91	76	104
Accounts Receivable	59	64	66	90	93	96	92	117	130	134
Inventories	55	57	55	85	86	103	107	134	164	153
Goodwill & Int. Ass.	175	157	204	401	372	510	513	596	561	551
Total Liabilities	148	148	186	429	351	512	431	567	494	399
Accounts Payable	27	24	24	35	36	46	32	59	58	42
Long-Term Debt	26	31	66	242	176	301	233	270	201	111
Shareholder's Equity	264	267	283	331	373	426	495	564	654	774
LTD/E Ratio	0.10	0.12	0.24	0.73	0.47	0.71	0.47	0.48	0.31	0.14

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	6.7%	8.3%	7.2%	5.0%	8.1%	6.3%	5.9%	8.2%	10.6%	10.0%
Return on Equity	10.7%	12.9%	11.6%	10.1%	17.1%	13.0%	11.9%	15.8%	19.8%	16.2%
ROIC	9.5%	11.6%	9.9%	6.7%	10.7%	8.1%	7.6%	10.7%	14.3%	13.3%
Shares Out.	10.9	10.8	10.9	11.0	11.1	11.4	11.5	11.6	11.7	11.7
Revenue/Share	35.87	35.16	37.14	45.53	55.60	61.50	54.91	67.49	77.41	81.65
FCF/Share	3.96	3.15	4.05	4.23	4.07	7.63	7.38	12.84	6.37	11.40

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