Kadant Inc. (KAI)

Updated May 5th, 2025, by Kody Kester

Key Metrics

Current Price:	$296	**5 Year CAGR Estimate:**	5.8%	**Market Cap:**	$3.5B
Fair Value Price:	$238	**5 Year Growth Estimate:**	10.0%	**Ex-Dividend Date:**	06/10/25[1]
% Fair Value:	124%	**5 Year Valuation Multiple Estimate:**	-4.2%	**Dividend Payment Date:**	08/07/25[1]
Dividend Yield:	0.5%	**5 Year Price Target**	$383	**Years Of Dividend Growth:**	12
Dividend Risk Score:	A	**Sector:**	Industrials	**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 April 29th, KAI released its first-quarter earnings report for the period ended March 29th, 2025. The company's total revenue decreased by 3.9% from the year-ago period to $239.2 million in the quarter. Flow Control segment revenue increased by 6.6% year-over-year to $92.4 million during the quarter, which was driven by solid demand in North America. The Material Handling segment logged a 1.4% increase from the year-ago period to $57.2 million for the quarter. Steady demand for aftermarket parts made up for reduced demand for capital equipment in the quarter. Growth in these segments was offset by a 15.4% drop in revenue to $89.5 million during the quarter in the Industrial Processing segment. That was because of softness in capital equipment shipments, with this being most pronounced in its wood processing product line. KAI's adjusted diluted EPS decreased by 11.8% year-over-year to $2.10 for the quarter. That topped the analyst consensus by $0.14 in the quarter. In March, KAI upped its quarterly dividend per share by 6.3% to $0.34.

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	***$9.15***	***$14.74***
DPS	$0.66	$0.74	$0.82	$0.87	$0.91	$0.95	$0.99	$1.03	$1.13	$1.25	***$1.36***	***$2.19***
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] Estimated based on past dividend dates.
[2] Share count is in millions.

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In the past decade, KAI's adjusted EPS has compounded at a low-teens rate annually. In the years to come, we still think that adjusted diluted EPS can grow by 10% annually off an anticipated adjusted diluted EPS base of $9.15 for 2025. 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	***32.3***	***26.0***
Avg. Yld.	1.6%	1.2%	0.8%	1.1%	0.8%	0.7%	0.4%	0.6%	0.4%	0.4%	***0.5%***	***0.6%***

Since 2015, KAI's P/E ratio has varied from as low as the low teens to as high as 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 remains warranted. Even after the recent correction, the current P/E ratio of 32.3 is still much 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%	***15%***	***15%***

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.

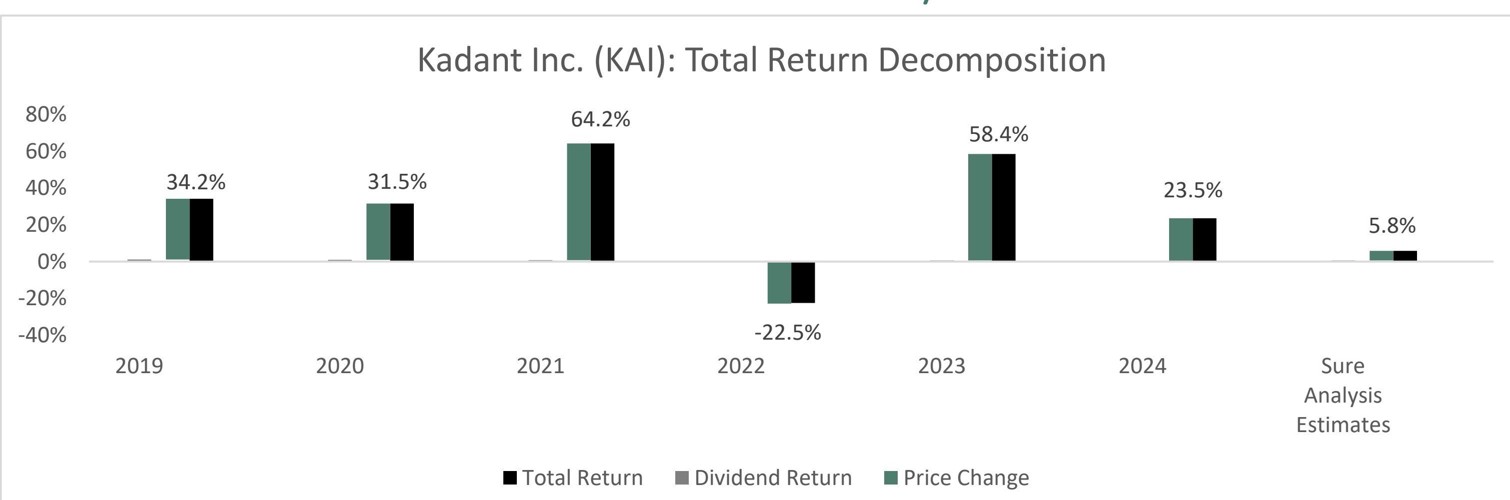
For an industrial firm, KAI consistently grows its adjusted EPS. And when earnings have declined, the drop has been by modest single-digit amounts. This has enabled it to bounce back quickly after any temporary decrease in earnings.

KAI's interest coverage ratio of 9.3x in Q1 2025 also indicates that the company is financially stable. The payout ratio also remains poised to be in the mid-teens in 2025. That puts KAI's dividend in a position to keep rising over the next few years.

Final Thoughts & Recommendation

KAI's 0.5% dividend yield, 10.0% annual adjusted EPS growth potential, and 4.2% annual valuation multiple downside could generate 5.8% annual total returns through 2030. The current valuation still looks like it is going to greatly weigh on capital appreciation over the medium term. That's why we're reiterating our hold rating.

Total Return Breakdown by Year



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	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Revenue	390	414	515	634	705	635	787	905	958	1,053
Gross Profit	180	189	231	278	294	277	337	390	416	466
Gross Margin	46.2%	45.5%	44.9%	43.9%	41.7%	43.7%	42.9%	43.1%	43.5%	44.3%
SG&A Exp.	123	135	160	177	193	182	209	224	236	280
D&A Exp.	11	14	19	24	32	31	34	35	33	38
Operating Profit	51	46	62	90	90	84	117	152	166	172
Operating Margi	13.0%	11.2%	12.0%	14.3%	12.8%	13.2%	14.9%	16.8%	17.4%	16.3%
Net Profit	34	32	31	60	52	55	84	121	116	112
Net Margin	8.8%	7.7%	6.0%	9.5%	7.4%	8.7%	10.7%	13.4%	12.1%	10.6%
Free Cash Flow	35	45	48	46	87	85	150	74	134	118
Income Tax	15	12	26	18	16	18	27	44	42	41

Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Assets	415	471	761	726	939	928	1,132	1,150	1,176	1,430
Cash & Equivalents	66	71	75	46	67	66	91	76	104	95
Accounts Receivable	64	66	90	93	96	92	117	130	134	161
Inventories	57	55	85	86	103	107	134	164	153	146
Goodwill & Int.	157	204	401	372	510	513	596	561	551	758
Total Liabilities	148	186	429	351	512	431	567	494	399	572
Accounts Payable	24	24	35	36	46	32	59	58	42	51
Long-Term Debt	31	66	242	176	301	233	270	201	111	285
Shareholder's Equity	267	283	331	373	426	495	564	654	774	858
LTD/E Ratio	0.12	0.24	0.73	0.47	0.71	0.47	0.48	0.31	0.14	0.33

Profitability & Per Share Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Return on Assets	8.3%	7.2%	5.0%	8.1%	6.3%	5.9%	8.2%	10.6%	10.0%	8.6%
Return on Equity	12.9%	11.6%	10.1%	17.1%	13.0%	11.9%	15.8%	19.8%	16.2%	13.8%
ROIC	11.6%	9.9%	6.7%	10.7%	8.1%	7.6%	10.7%	14.3%	13.3%	10.9%
Shares Out.	10.8	10.9	11.0	11.1	11.4	11.5	11.6	11.7	11.7	11.7
Revenue/Share	35.16	37.14	45.53	55.60	61.50	54.91	67.49	77.41	81.65	90.00
FCF/Share	3.15	4.05	4.23	4.07	7.63	7.38	12.84	6.37	11.40	10.09

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