

Nordson Corporation (NDSN)

\$188.35 (As of 05/29/20)

Price Target (6-12 Months): **\$198.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 08/07/98)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: D

Growth: B

Momentum: C

Summary

In the past three months, Nordson's shares outperformed the industry. In second-quarter fiscal 2020, the company's earnings and sales surpassed the Zacks Consensus Estimate by 23.44% and 4.13% respectively. In the quarters ahead, the company stands to gain from its diversified business structure, large customer base and commitment toward rewarding shareholders. Also, the company's realigned business structure will help in achieving its long-term priorities — boosting organic growth, buyouts, talent development and gaining from Nordson Business System. However, uncertainties related to the pandemic are concerns, resulting in the company suspending its projections for fiscal 2020. Also, forex woes and high debts might be spoilsport. The stock is currently overvalued compared with the industry.

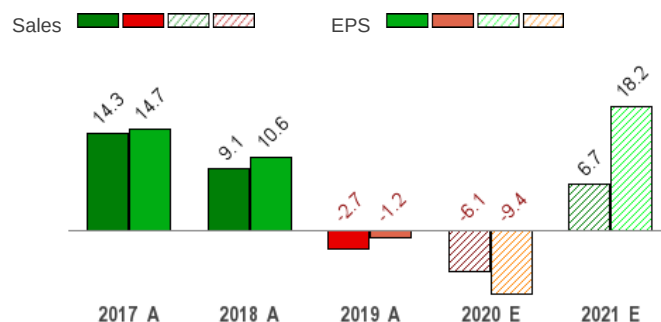
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$189.95 - \$96.46
20 Day Average Volume (sh)	291,910
Market Cap	\$10.9 B
YTD Price Change	15.7%
Beta	1.19
Dividend / Div Yld	\$1.52 / 0.8%
Industry	Manufacturing - General Industrial
Zacks Industry Rank	Bottom 21% (200 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	23.4%
Last Sales Surprise	4.1%
EPS F1 Est- 4 week change	-0.3%
Expected Report Date	NA
Earnings ESP	0.0%
P/E TTM	32.0
P/E F1	35.4
PEG F1	2.8
P/S TTM	5.0

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	490 E	537 E	528 E	596 E	2,198 E
2020	495 A	529 A	495 E	541 E	2,060 E
2019	498 A	551 A	560 A	585 A	2,194 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.91 E	\$1.61 E	\$1.55 E	\$1.87 E	\$6.29 E
2020	\$0.89 A	\$1.58 A	\$1.28 E	\$1.55 E	\$5.32 E
2019	\$0.92 A	\$1.54 A	\$1.62 A	\$1.79 A	\$5.87 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 05/29/2020. The reports text is as of 06/01/2020.

Overview

Nordson Corporation is currently headquartered in Westlake, OH. The company is one of the leading manufacturers as well as distributors of products and systems designed to dispense, apply and control adhesives, coatings, polymers, sealants, biomaterials, and other fluids.

The company's product line includes single-use components, stand-alone units for low-volume operations and microprocessor-based automated systems for high-speed, high-volume production lines.

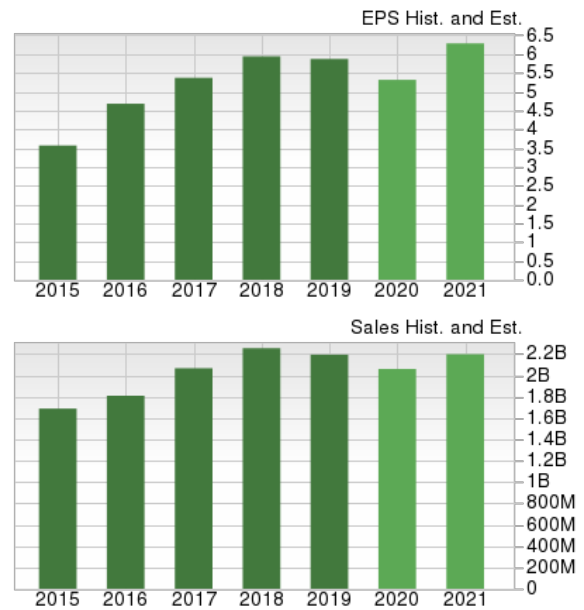
The company has operations in above 35 countries, with manufacturing facilities located primarily in the United States, the Netherlands, the People's Republic of China, Germany, Mexico, Ireland, Israel, Thailand and the United Kingdom.

The company realigned its business segments in March 2020 and now reports under Industrial Precision Solutions and Advanced Technology Solutions. A brief discussion on the segmental performance in the quarter under review is provided below:

- **Industrial Precision Solutions** (contributed 53.3% of total sales in second-quarter fiscal 2020): This segment includes results of the company's previous two segments — Industrial Coating Systems and Adhesive Dispensing Systems.

The segment is engaged in providing processing and dispensing technology to customers in markets like non-durables, industrial and consumer durables. The standard and customized products help in dispensing sealants, paint, adhesives, coatings and other materials.

- **Advanced Technology Systems** (contributed 46.7% of total sales in second-quarter fiscal 2020): The segment provides services for inspection, surface treatment and controlled dispensing of material. Also, products like catheters, fluid-connection components, cartridges, balloons, tubing and plastic-molded syringes (single-use) will be made available through this segment. Prime end-markets served are general industrial, electronics and medical.



Reasons To Buy:

- ▲ In past three months, Nordson's shares have increased 27.4% as compared with the industry's fall of 11.7%. In second-quarter fiscal 2020, the company's earnings and sales surpassed the consensus estimate by 23.44% and 4.13% respectively. The company noted that health of its workers and customer service remains its top priorities in the prevalent uncertain environment. Amid this, a well-diversified business structure and large customer base in various industries — including packaging, electronics, non-wovens, medical, appliances, transportation, energy, building and construction, general product assembly and finishing industries — might help. Further, the implementation of its growth-focused strategic framework, talent development and Nordson Business System might prove beneficial.
- ▲ Over time, Nordson has been successfully capitalizing on acquisitions by penetrating into unexplored markets and expanding product lines. In this regard, the buyouts of Clada Medical Devices in October 2018 and Optical Control GmbH in July 2019 are worth mentioning. Notably, first-year effect of acquisitions had positive impact (of less than 1%) on the company's sales in the second quarter of fiscal 2020.
- ▲ Nordson remains committed to rewarding shareholders handsomely through dividend payments and share buybacks. In second-quarter fiscal 2020, the company paid out dividends worth \$22 million to shareholders and repurchased shares worth \$38 million. Notably, the quarterly dividend rate was hiked 9% in August 2019, and a \$500-million share buyback program was authorized in September 2018. Also, the company recently received its board of directors' approval for payment of quarterly cash dividend to shareholders in June 2020. These shareholder-friendly policies will work in the company's favor.

Diversified business structure, gains from acquired assets and shareholder-friendly policies are likely to benefit Nordson.

Reasons To Sell:

- ▼ In second-quarter fiscal 2020, Nordson's sales decreased 3.9% from the year-ago quarter due to decline in organic volumes and forex woes (mentioned below). Geographically, sales declines were recorded in the United States, the Asia-Pacific region, Europe and the Americas. Also, the Industrial Precision Solutions and Advanced Technology Solutions segments recorded year over year declines of 6.5% and 0.8% respectively. Nordson withdrew its projections for fiscal 2020 due to uncertainties emanating from the coronavirus outbreak. In the past 30 days, the company's earnings estimates have trended south, highlighting increasing bearish market sentiments. The Zacks Consensus Estimate for earnings has been lowered 0.2% to \$5.32 for fiscal 2020 and 0.9% to \$6.29 for fiscal 2021.
- ▼ On a P/E (TTM) basis, Nordson has been overvalued compared with the industry, with respective tallies of 32.03x and 20.28x. In addition, high debt levels can dent the company's profitability. The company's long-term debts stood at \$1,237.2 million at the end of second-quarter fiscal 2020, reflecting sequential growth of 15.2%. On the other hand, the company's cash and marketable securities were just \$306.3 million.
- ▼ International businesses have exposed Nordson to risks arising from unfavorable movements in foreign currencies and geopolitical issues. In second-quarter fiscal 2020, forex woes lowered the company's sales by 1.4% while the same had adverse impact of 1% in the first fiscal quarter.

Unfavorable impacts of the pandemic might be a concern for Nordson in the quarters ahead. Also, high debts and unfavorable movements in foreign currencies might hurt.

Last Earnings Report

Nordson Beats Q2 Earnings Estimates, Withdraws View

Nordson reported better-than-expected results for the second quarter of fiscal 2020 (ended Apr 30, 2020). Both earnings and sales surpassed the consensus estimate by 23.44% and 4.13% respectively.

Adjusted earnings, excluding one-time charges and gains, in the reported quarter were \$1.58 per share, surpassing the Zacks Consensus Estimate of \$1.28. Moreover, the bottom line increased 2.6% from the year-ago figure of \$1.54 as lower costs and expenses made up for the decline in sales.

Quarter Ending **04/2020**

Report Date	May 20, 2020
Sales Surprise	4.13%
EPS Surprise	23.44%
Quarterly EPS	1.58
Annual EPS (TTM)	5.88

Revenue Details

In the reported quarter, Nordson's net sales were \$529.5 million, down 3.9% year over year. The top line suffered from a 2.5% decline in organic volumes and 1.4% adverse impact of unfavorable movements in foreign currencies, partially offset by gain from acquisitions. Further, the top line surpassed the Zacks Consensus Estimate of \$508 million.

At the end of the reported quarter, backlog was \$456 million, up 6% year over year.

On a regional basis, revenues from the United States dropped 0.9% year over year to \$188.9 million. Revenues generated from operations in Japan grew 5.1% to \$31.6 million, while that from the Asia-Pacific region declined 0.7% to \$136.2 million. Revenues generated in Europe fell 9% to \$136.1 million and that in the Americas declined 16% to \$36.7 million.

A brief discussion on the segmental performance in the quarter under review is provided below:

The **Industrial Precision Solutions** segment's revenues totaled \$282.3 million, down 6.5% year over year. The segment suffered from a 4.5% fall in volumes and 2% adverse impact of foreign currency translation.

Advanced Technology Solutions' revenues were \$247.204 million, down 0.8% year over year. The fall was due to a 0.6% adverse impact of foreign currency movements and 0.2% decline in volumes.

Margin Profile

In the quarter under review, Nordson's cost of sales declined 3.9% year over year to \$239.9 million. It represented 45.3% of net sales in the quarter. Selling and administrative expenses contracted 4.7% year over year to \$164.6 million. It represented 31.1% of net sales in the reported quarter versus 31.3% in the year-ago quarter.

Adjusted earnings before interest, tax, depreciation and amortization (EBITDA) in the quarter under review were \$151.6 million, down 2.8% year over year.

Operating profits declined 3% year over year to \$125 million while the margin came in at 23.6% versus 23.4% in the year-ago quarter.

Balance Sheet & Cash Flow

Exiting the fiscal second quarter, Nordson's cash and marketable securities were \$306.3 million, up from \$115.1 million at the end of the previous quarter. The company's long-term debt increased 15.2% sequentially to \$1,237.2 million.

In first-half fiscal 2020, the company generated net cash of \$218.2 million from operating activities, reflecting a year-over-year increase of 34.8%. Capital spent on the addition of property, plant and equipment fell 2.9% to \$25.8 million. Free cash flow was \$192.4 million, reflecting an increase of 41.2% from the year-ago period.

During the reported quarter, the company used approximately \$38 million to buy back 300,000 shares and pay dividends amounting to \$22 million.

Outlook

For fiscal 2020 (ending October 2020), Nordson withdrew its projections due to uncertainties emanating from the coronavirus outbreak. Meanwhile, the company mentioned that a well-diversified business structure and a healthy balance sheet are major positives.

Recent News

On **May 12, 2020**, Nordson's board of directors approved payment of a quarterly cash dividend of 38 cents per share to shareholders of record as of May 26, 2020. The disbursement will be made on Jun 9.

On **Apr 22, 2020**, Nordson EFD, a business unit of Nordson, announced the introduction of a new line of sustainably-sourced Optimum ECO dispensing components.

Valuation

Nordson shares are up 15.7% and 49.8% in the year-to-date period and over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Industrial Products sector are down 15.8% and 14.8% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and the sector are down 2.9% and 4%, respectively.

The S&P 500 Index has moved down 5.4% year to date and increased 11.1% in the past year.

The stock is currently trading at 32.03x forward 12-month earnings per share, which compares to 26.49x for the Zacks sub-industry, 20.97x for the Zacks sector and 22.09x for the S&P 500 index.

Over the past five years, the stock has traded as high as 32.03x and as low as 13.56x, with a 5-year median of 20.53x. Our Neutral recommendation indicates that the stock will perform in line with the market. Our price target of \$198 reflects 33.63x forward 12-month earnings per share.

The table below shows summary valuation data for NDSN.

Valuation Multiples - NDSN					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	32.03	26.49	20.97	22.09
	5-Year High	32.03	26.49	20.97	22.09
	5-Year Low	13.56	15.6	12.55	15.23
	5-Year Median	20.53	19.47	16.58	17.49
EV/EBITDA F12M	Current	20.53	16.75	18.2	13.11
	5-Year High	20.53	16.75	18.2	14.17
	5-Year Low	10.08	8.2	10.6	9.02
	5-Year Median	13.68	11.12	14.13	10.86
EV/Sales F12M	Current	5.55	3.4	2.95	3.12
	5-Year High	5.55	3.4	3.13	3.52
	5-Year Low	2.53	1.81	1.76	2.28
	5-Year Median	3.85	2.6	2.31	2.82

As of 05/29/2020

Industry Analysis Zacks Industry Rank: Bottom 21% (200 out of 254)



Top Peers

Company (Ticker)	Rec	Rank
Applied Industrial Technologies, Inc. (AIT)	Neutral	1
The Carlyle Group L.P. (CG)	Neutral	3
Carlisle Companies Incorporated (CSL)	Neutral	4
Graco Inc. (GGG)	Neutral	3
IDEX Corporation (IEX)	Neutral	4
Illinois Tool Works Inc. (ITW)	Neutral	4
3M Company (MMM)	Neutral	3
NN, Inc. (NNBR)	Neutral	3

Industry Comparison Industry: Manufacturing - General Industrial				Industry Peers		
	NDSN	X Industry	S&P 500	AIT	CSL	GGG
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	1	4	3
VGM Score	B	-	-	A	B	D
Market Cap	10.90 B	1.13 B	21.48 B	2.25 B	6.58 B	8.03 B
# of Analysts	6	4	14	2	4	6
Dividend Yield	0.81%	0.00%	1.96%	2.21%	1.67%	1.45%
Value Score	D	-	-	A	C	D
Cash/Price	0.03	0.11	0.06	0.08	0.19	0.06
EV/EBITDA	20.10	11.34	12.56	8.88	9.20	17.04
PEG Ratio	2.80	3.27	2.87	NA	1.36	4.47
Price/Book (P/B)	6.59	1.76	2.92	2.70	2.61	7.88
Price/Cash Flow (P/CF)	23.96	9.38	11.74	8.33	9.94	21.48
P/E (F1)	35.40	22.91	21.35	15.70	20.43	35.80
Price/Sales (P/S)	5.02	1.09	2.27	0.66	1.38	4.97
Earnings Yield	2.82%	3.88%	4.52%	6.36%	4.90%	2.80%
Debt/Equity	0.75	0.50	0.76	1.04	1.02	0.39
Cash Flow (\$/share)	7.86	2.49	6.96	6.96	12.06	2.24
Growth Score	B	-	-	A	B	C
Hist. EPS Growth (3-5 yrs)	NA%	11.57%	10.87%	14.14%	11.33%	14.61%
Proj. EPS Growth (F1/F0)	-9.45%	-29.47%	-10.48%	-16.21%	-28.53%	-29.12%
Curr. Cash Flow Growth	-1.46%	4.80%	5.39%	35.35%	19.98%	0.13%
Hist. Cash Flow Growth (3-5 yrs)	7.90%	5.38%	8.55%	13.96%	13.96%	7.47%
Current Ratio	3.17	2.19	1.29	2.60	4.33	3.36
Debt/Capital	42.81%	33.61%	44.54%	51.01%	50.57%	28.20%
Net Margin	15.70%	4.21%	10.59%	0.99%	9.54%	20.43%
Return on Equity	21.32%	10.77%	16.26%	17.40%	17.88%	31.40%
Sales/Assets	0.61	0.75	0.55	1.44	0.84	0.93
Proj. Sales Growth (F1/F0)	-6.11%	-9.12%	-2.53%	-5.97%	-11.05%	-13.99%
Momentum Score	C	-	-	C	B	B
Daily Price Chg	3.27%	0.00%	-0.11%	-1.29%	-3.25%	-1.03%
1 Week Price Chg	7.19%	6.96%	4.99%	10.14%	9.81%	3.75%
4 Week Price Chg	17.05%	6.14%	4.40%	10.71%	-0.91%	7.95%
12 Week Price Chg	31.65%	-8.28%	-2.75%	4.81%	-16.97%	-4.65%
52 Week Price Chg	48.00%	-10.51%	0.07%	5.70%	-12.49%	1.11%
20 Day Average Volume	291,910	85,207	2,425,602	217,632	462,271	705,099
(F1) EPS Est 1 week change	-3.31%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-0.34%	0.00%	-1.70%	3.50%	0.00%	0.00%
(F1) EPS Est 12 week change	-13.72%	-32.04%	-16.00%	-14.07%	-32.46%	-32.04%
(Q1) EPS Est Mthly Chg	-10.10%	-7.87%	-3.25%	19.13%	0.00%	0.00%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	D
Growth Score	B
Momentum Score	C
VGM Score	B

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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