

Nordson Corporation (NDSN)

\$169.50 (As of 01/17/20)

Price Target (6-12 Months): **\$178.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 03/04/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:C

Value: D

Growth: B

Momentum: D

Summary

Nordson stands to benefit from its diversified product portfolio and large customer base in various end markets. Also, business acquisitions are likely to prove beneficial to the company. Moreover, the company's continuous focus on rewarding shareholders handsomely through dividends and share buybacks will work in its favor. Over the past three months, its shares have outperformed the industry. However, the stock has been overvalued compared with the industry over the same time frame. Also, rising costs of sales remain a concern. In addition, unfavorable foreign currency movements are likely to weigh on its financials, going forward. Further, analysts have become increasingly bearish on the company in the past 60 days, evident from downward revision in earnings estimates for fiscal 2020 and fiscal 2021.

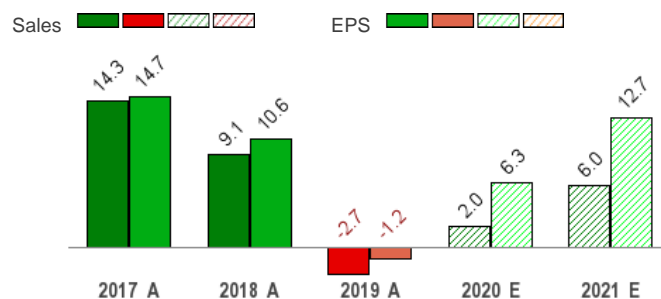
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$170.15 - \$123.80
20 Day Average Volume (sh)	239,258
Market Cap	\$9.8 B
YTD Price Change	4.1%
Beta	1.21
Dividend / Div Yld	\$1.52 / 0.9%
Industry	Manufacturing - General Industrial
Zacks Industry Rank	Bottom 25% (190 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	1.1%
Last Sales Surprise	-3.1%
EPS F1 Est- 4 week change	-0.1%
Expected Report Date	02/19/2020
Earnings ESP	0.0%
P/E TTM	28.9
P/E F1	27.2
PEG F1	2.2
P/S TTM	4.5

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					2,371 E
2020	499 E	558 E	583 E	598 E	2,237 E
2019	498 A	551 A	560 A	585 A	2,194 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021					\$7.03 E
2020	\$1.04 E	\$1.62 E	\$1.77 E	\$1.82 E	\$6.24 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 01/17/2020. The reports text is as of 01/20/2020.

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 operates in more than 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.

Nordson reports its top-line results under three segments. A brief segmental discussion is provided below:

Adhesive Dispensing Systems (contributed 43.3% of total sales in fourth-quarter fiscal 2019): This segment is engaged in offering precision dispensing and processing technology to various industries for applications, which boosts line efficiency, improve product strength and durability, as well as reduces material consumption.

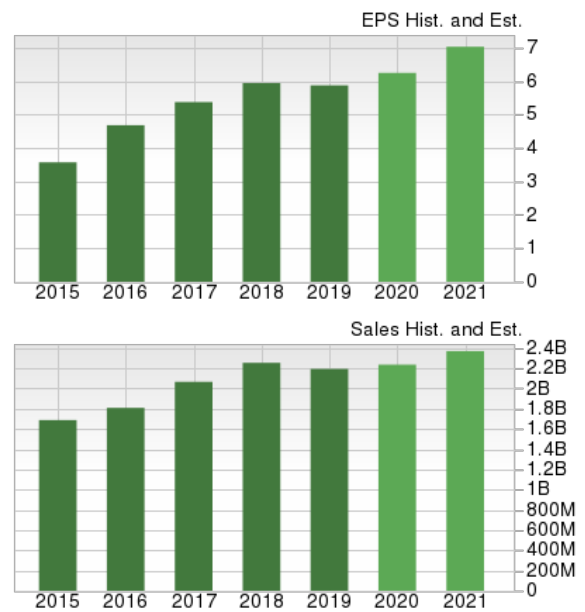
Notably, the segment caters to customers in the packaging, nonwovens, polymer processing and products assembly end-markets.

Advanced Technology Systems (contributed 42.5% of total sales in fourth-quarter fiscal 2019): The segment facilitates the integration of its proprietary product technologies found in progressive stages of a manufacturing process. The segment caters to the specific requirements of electronics, medical as well as related high-tech industries.

The segment's product lines consist of the electronic systems, fluid management and test and inspection.

Industrial Coating Systems (contributed 14.2% of total sales in fourth-quarter fiscal 2019): This segment is primarily engaged in offering customized equipment that are utilized for applying paint, finishes, coatings, sealants and other materials.

The segment's product lines include the cold materials, container coating, curing and drying systems, liquid finishing as well as powder coating.



Reasons To Buy:

- ▲ We believe that Nordson stands to benefit from the diversified product portfolio and large customer base in the packaging, electronics, nonwovens, medical, appliances, transportation, energy, building and construction, general product assembly and finishing industries. No single customer accounted for 10% or more of the company's overall sales in fiscal 2019. In fourth-quarter fiscal 2019, Nordson's sales improved 4% on an organic basis, supported by healthy growth across its Adhesive Dispensing Systems and the Industrial Coating Systems segments. For fiscal 2020, the company expects strength in consumer non-durable products end markets and medical products end markets, coupled with its growth initiatives to aid organic sales. For fiscal 2020, the company anticipates organic sales to grow in the range of 1-3% on a year-over-year basis. Over the past three months, Nordson's shares have returned 12.9% compared with the industry's growth of 12%.

Diversified product portfolio, gains from acquired assets and shareholder-friendly policies are likely to benefit Nordson.
 - ▲ Over time, Nordson has been successfully capitalizing on acquisitions by penetrating into unexplored markets and expanding product lines. In this regard, the buyout of Clada Medical Devices in October 2018 is worth mentioning. This deal has strengthened the company's businesses under the Advanced Technology Systems segment. Moreover, in July 2019, the company completed the buyout of Optical Control GmbH. The acquisition has been augmenting electronic solutions product lines under the company's Advanced Technology Systems segment. Notably, first-year effect of acquisitions had a positive contribution of roughly 1% to the company's sales in the fiscal 2019. As a matter of fact, it expects first-year effective acquisitions to boost sales by 20 basis points in fiscal 2020.
 - ▲ Nordson remains committed to rewarding shareholders handsomely through dividend payments and share buybacks. In fiscal 2019, the company paid dividends worth \$82 million to shareholders and repurchased shares worth \$115 million. It is worth noting that the quarterly dividend rate was hiked 9% in August 2019, and a \$500-million share buyback program was authorized in September 2018. The company's continuous focus on rewarding shareholders handsomely through dividends and share buybacks will work in its favor.
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Reasons To Sell:

- ▼ Nordson is experiencing softness in the Advanced Technology Systems segment. The segment's organic sales declined 1% in the fourth quarter of fiscal 2019 on a year-over-year basis due to softness in electronic end markets, particularly the dispense platform. As a matter of fact, the company expects the weakness to persist in its electronics end markets in the near term. For fiscal 2020, the company offered flat outlook for product lines serving the electronic end markets on a year-over-year basis. In the past 60 days, the company's earnings estimates have been trending south, highlighting bearish market sentiments. The Zacks Consensus Estimate for earnings has been lowered 2.7% to \$6.24 for fiscal 2020 and 5% to \$7.03 for fiscal 2021.
- ▼ Over time, Nordson has been grappling with adverse impacts of rising costs and expenses. In the last five fiscals (2015-2019), its cost of sales increased 5.4% (CAGR) while selling and administrative expenses jumped 4% (CAGR). It is worth mentioning here that the company recorded about 2% year-over-year growth in cost of sales in the fourth quarter of fiscal 2019. We believe, if unchecked, higher costs and operating expenses will prove detrimental to its margins and profitability. Also, on a P/E (TTM) basis, Nordson has been overvalued compared to the industry, with respective tallies of 28.88x and 23.09x. Notably, the company's multiple is higher than the industry's three-month highest level of 23.09x. This makes us cautious about the stock.
- ▼ International businesses exposed Nordson to risks arising from unfavorable movements in foreign currencies and geopolitical issues. In the third and fourth quarter of fiscal 2019, adverse impact from foreign currency movements lowered sales by 2% and 1%, respectively. For fiscal 2020, the company anticipates unfavorable foreign currency movements to adversely affect sales by about 30 basis points.

Rising cost of sales and adverse impact of unfavorable movements in foreign currencies can be detrimental to Nordson's financials.

Last Earnings Report

Nordson's Q4 Earnings Surpass Estimates, Rise Y/Y

Nordson's fourth-quarter fiscal 2019 (ended Oct 31, 2019) earnings beat expectations, the positive earnings surprise being 1.1%.

Adjusted earnings, excluding one-time charges and gains, were \$1.79 per share, surpassing the Zacks Consensus Estimate of \$1.77. Also, the bottom line increased 24.3% from the year-ago figure of \$1.44 primarily due to higher sales, fall in net interest expenses and lower share count.

For fiscal 2019, Nordson's adjusted earnings per share were \$5.87, down 1.2% from the year-ago figure of \$5.94.

Quarter Ending **10/2019**

Report Date	Dec 11, 2019
Sales Surprise	-3.12%
EPS Surprise	1.13%
Quarterly EPS	1.79
Annual EPS (TTM)	5.87

Inside the Headlines

In the reported quarter, Nordson's sales were \$585.5 million, increasing 2.8% year over year. The top line gained from 4% increase in organic volume, partially offset by 1% adverse impact of unfavorable movements in foreign currencies. However, revenues missed the Zacks Consensus Estimate of \$605 million. At the quarter end, backlog was \$385 million, down 1% year over year.

On a regional basis, sales from the United States increased 12% year over year to \$206.9 million. Sales generated from Japan increased 7.8% to \$37.2 million while that from the Asia Pacific improved 17.3% to \$150.9 million. Sales from Europe decreased 16.5% to \$145.9 million and that from the Americas declined 4.7% to \$44.5 million.

The company reports top-line results under three segments — Adhesive Dispensing Systems, Advanced Technology Systems and Industrial Coating Systems. A brief discussion on the segmental performance for the quarter is provided below:

Adhesive Dispensing Systems' sales totaled \$253.7 million, increasing 1.1% year over year. The improvement was driven by 3% increase in volume, partially offset by 2% adverse impact of foreign currency translation.

Advanced Technology Systems' sales were \$249 million, down 0.5% year over year. The fall was due to 1% adverse impact of foreign currency movements, and about 1% decrease in volume.

Sales generated from **Industrial Coating Systems** increased 21.3% year over year to \$82.8 million. Volume increased 22% while foreign currency movements had a negative impact of 1%.

For fiscal 2019, the company's sales were \$2,194.2 million, decreasing 2.7% year over year.

Margin Details

In the quarter, Nordson's cost of sales increased 2% to \$266.5 million. It represented 45.5% of sales compared with 45.9% in the year-ago quarter. Selling and administrative expenses declined 6.2% to \$179.3 million. It represented 30.6% of sales compared with 33.5% a year ago.

Adjusted earnings before interest, tax, depreciation and amortization were \$164.8 million, increasing 14.9% year over year.

Operating profit increased 20% to \$139.7 million. Margin came in at 23.9% compared with 20.5% in the year-ago quarter.

Balance Sheet & Cash Flow

Exiting the fiscal fourth quarter, Nordson's cash and marketable securities were \$151.2 million, up roughly 58% from \$95.7 million as of Oct 31, 2018. The company's long-term debt decreased 16.3% to \$1,075.4 million at the end of fiscal 2019.

In the fiscal fourth quarter, the company generated net cash of \$146.5 million from operating activities, down 9.4% year over year. Adjusted free cash flow was roughly \$128.7 million, increasing 9%. Capital spent on the addition of property, plant and equipment was \$18.2 million.

During the reported quarter, the company paid dividends amounting to \$21.8 million.

Outlook

For fiscal 2020 (ending October 2020), the company anticipates organic sales to grow in the range of 1-3%. The effective tax rate is estimated to be about 22%.

Recent News

On **Jan 7, 2020**, Nordson paid a quarterly cash dividend of 38 cents per share to shareholders on record as of Dec 20, 2019.

On **Dec 3, 2019**, Nordson SELECT, a business unit of Nordson, announced the launch of two segment board handling technology.

On **Nov 19, 2019**, Nordson's business unit — Nordson Industrial Coating Systems — announced a deal with Zoomlion Group, a leading global construction machinery company. The companies will collaborate to offer robotic powder coating technology globally.

Per the collaboration, Nordson will be responsible for providing advanced powder coating products and technologies for Zoomlion's heavy construction machinery line. Both the companies will emphasize on two of Nordson's latest technologies, the Encore Engage controller and the Wisdom smart connected platform.

On **Nov 12, 2019**, Nordson ASYMTEK, a business unit of Nordson, unveiled Vortik Series of pumps, including VPs, VPm and VPg.

On **Nov 11, 2019**, Nordson's Industrial Coatings Systems introduced Encore Engage — a powder coating controller.

On **Nov 5, 2019**, Nordson ASYMTEK, a business unit of Nordson, introduced more efficient dispensing and conformal coating in electronics manufacturing.

On **Oct 22, 2019**, Nordson EFD, a business unit of Nordson announced the release of latest volumetric progressive cavity pump systems including 797PCP and 797PCP-2K pumps, and 7197PCP-DIN or ValveMate 7197PCP controllers.

Valuation

Nordson shares are up 32.1% over the trailing 12 months. Stocks in the Zacks sub-industry and the Zacks Industrial Products sector are up 28.3% and 15.5% over the past year.

The S&P 500 index has moved up 23.8% in the past year.

The stock is currently trading at 26.42x forward 12-month earnings per share, which compares to 21.53x for the Zacks sub-industry, 18.41x for the Zacks sector and 19.2x for the S&P 500 index.

Over the past five years, the stock has traded as high as 26.42x and as low as 13.56x, with a 5-year median of 20.24x. Our Neutral recommendation indicates that the stock will perform in line with the market. Our price target of \$178 reflects 27.74x 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	26.42	21.53	18.41	19.2
	5-Year High	26.42	22.58	19.91	19.34
	5-Year Low	13.56	15.2	12.6	15.17
	5-Year Median	20.24	18.95	16.54	17.44
EV/EBITDA F12M	Current	17.38	12.81	17.82	12.66
	5-Year High	17.38	12.81	18.22	12.66
	5-Year Low	10.2	8.3	10.69	9.08
	5-Year Median	13.74	10.69	14.03	10.78
EV/Sales F12M	Current	4.78	2.78	3.14	3.26
	5-Year High	4.78	2.78	3.14	3.37
	5-Year Low	2.53	1.67	1.76	2.3
	5-Year Median	3.8	2.31	2.28	2.79

As of 01/17/2020

Industry Analysis Zacks Industry Rank: Bottom 25% (190 out of 254)



Top Peers

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

Industry Comparison Industry: Manufacturing - General Industrial				Industry Peers		
	NDSN Neutral	X Industry	S&P 500	AIT Neutral	CSL Neutral	GGG Neutral
VGM Score	C	-	-	B	B	D
Market Cap	9.78 B	2.02 B	24.65 B	2.61 B	9.29 B	8.87 B
# of Analysts	5	4	13	2	3	6
Dividend Yield	0.90%	0.00%	1.73%	1.84%	1.22%	1.20%
Value Score	D	-	-	B	C	D
Cash/Price	0.02	0.05	0.04	0.04	0.07	0.02
EV/EBITDA	18.21	13.98	14.11	10.17	14.82	18.79
PEG Ratio	2.15	2.18	2.08	NA	1.21	2.48
Price/Book (P/B)	6.16	2.80	3.39	2.81	3.47	9.02
Price/Cash Flow (P/CF)	21.56	12.98	13.81	9.69	17.13	23.69
P/E (F1)	27.16	18.98	19.19	15.46	18.12	28.49
Price/Sales (P/S)	4.46	1.42	2.69	0.75	1.96	5.41
Earnings Yield	3.68%	5.24%	5.21%	6.46%	5.52%	3.52%
Debt/Equity	0.69	0.57	0.72	0.93	0.59	0.20
Cash Flow (\$/share)	7.86	2.51	6.94	6.96	9.57	2.25
Growth Score	B	-	-	B	A	C
Hist. EPS Growth (3-5 yrs)	NA%	5.37%	10.56%	12.71%	11.65%	13.95%
Proj. EPS Growth (F1/F0)	6.37%	7.58%	7.57%	-1.02%	13.13%	3.15%
Curr. Cash Flow Growth	-1.46%	15.81%	14.73%	35.35%	9.03%	26.72%
Hist. Cash Flow Growth (3-5 yrs)	7.90%	7.16%	9.00%	13.96%	11.06%	8.54%
Current Ratio	2.12	2.04	1.24	2.39	3.04	2.69
Debt/Capital	40.69%	37.08%	42.99%	48.10%	37.23%	16.34%
Net Margin	15.36%	6.55%	11.14%	3.86%	9.66%	20.29%
Return on Equity	22.74%	13.61%	17.16%	18.22%	17.99%	36.17%
Sales/Assets	0.63	0.83	0.55	1.48	0.88	1.04
Proj. Sales Growth (F1/F0)	1.94%	1.94%	4.16%	0.06%	5.44%	0.73%
Momentum Score	D	-	-	D	F	F
Daily Price Chg	0.70%	0.00%	0.27%	-0.68%	0.62%	-0.54%
1 Week Price Chg	-0.27%	-0.25%	0.39%	-2.33%	-0.61%	0.52%
4 Week Price Chg	3.57%	1.86%	2.95%	1.86%	2.39%	3.36%
12 Week Price Chg	9.49%	8.61%	7.76%	19.67%	6.72%	15.45%
52 Week Price Chg	35.52%	13.65%	22.29%	10.62%	53.44%	24.39%
20 Day Average Volume	239,258	45,262	1,536,375	144,046	281,044	499,781
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	-0.55%	0.00%
(F1) EPS Est 4 week change	-0.10%	0.00%	0.00%	0.00%	-0.55%	0.15%
(F1) EPS Est 12 week change	-3.89%	-1.11%	-0.40%	0.11%	0.84%	-5.97%
(Q1) EPS Est Mthly Chg	-0.43%	0.00%	0.00%	0.00%	-4.64%	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	D
VGM Score	C

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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