

Nordson Corporation (NDSN)

\$157.16 (As of 02/25/20)

Price Target (6-12 Months): **\$166.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 03/04/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: C

Growth: C

Momentum: F

Summary

Nordson's first-quarter fiscal 2020 earnings and revenues missed the Zacks Consensus Estimate by 15.2% and 0.8%, respectively. The company stands to benefit from its diversified product portfolio and large customer base in various end markets. Also, business acquisitions are likely to prove beneficial for it. Moreover, its continuous focus on rewarding shareholders handsomely through dividends and share buybacks will work in its favor. However, over the past three months, the stock has underperformed and looks overvalued compared to the industry. Rising costs of sales remain a major concern. Also, unfavorable foreign currency movements are likely to weigh on its financials, going forward. Analysts have become increasingly bearish on it in the past seven days, as evident from downward revision in earnings estimates for fiscal 2020 and fiscal 2021.

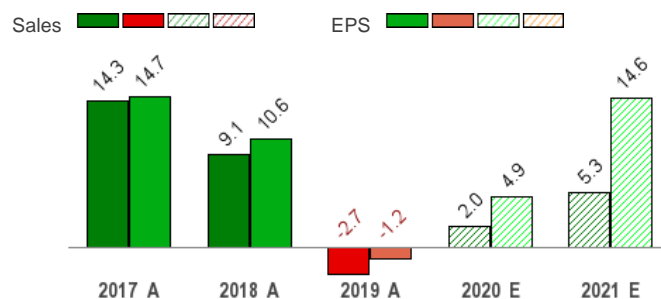
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$180.28 - \$124.91
20 Day Average Volume (sh)	226,488
Market Cap	\$9.1 B
YTD Price Change	-3.5%
Beta	1.18
Dividend / Div Yld	\$1.52 / 1.0%
Industry	Manufacturing - General Industrial
Zacks Industry Rank	Bottom 20% (205 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-15.2%
Last Sales Surprise	-0.8%
EPS F1 Est- 4 week change	-1.3%
Expected Report Date	05/18/2020
Earnings ESP	0.0%
P/E TTM	26.9
P/E F1	25.5
PEG F1	2.0
P/S TTM	4.1

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					2,356 E
2020	495 A	542 E	589 E	612 E	2,238 E
2019	498 A	551 A	560 A	585 A	2,194 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021					\$7.06 E
2020	\$0.89 A	\$1.54 E	\$1.79 E	\$1.93 E	\$6.16 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 02/25/2020. The reports text is as of 02/26/2020.

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 employs more than 7,500 employees 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.

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

Adhesive Dispensing Systems (contributed 41.9% of total sales in first-quarter fiscal 2020): 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.

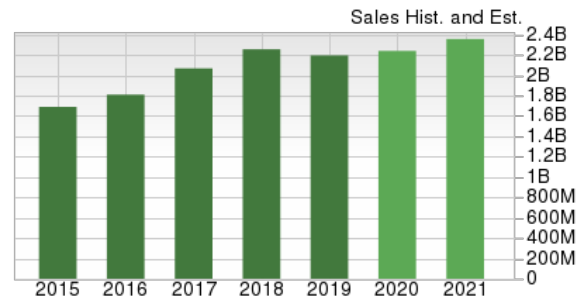
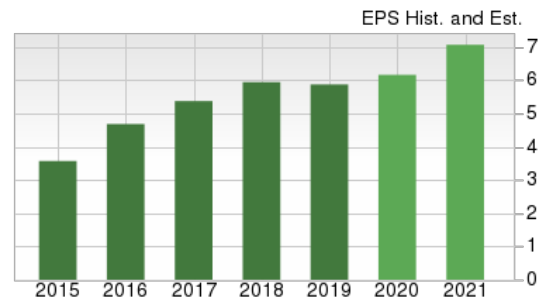
Notably, the segment caters to customers in the packaging, nonwovens, polymer processing and products assembly end-markets.

Advanced Technology Systems (contributed 46.7% of total sales in first-quarter fiscal 2020): 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 11.4% of total sales in first-quarter fiscal 2020): 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 its 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. For fiscal 2020, Nordson expects strength in the medical products end markets, coupled with its growth initiatives and innovation investments to aid organic sales. The company anticipates organic sales to grow in the range of 1-3% for fiscal 2020 on a year-over-year basis. Further, the implementation of its growth-focused strategic framework, Nordson Business System will likely prove beneficial in the quarters ahead.

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 contribution of roughly 1% to the company's sales in the fiscal first quarter of 2020. As a matter of fact, it expects first-year effective acquisitions to boost sales by 20 basis points for fiscal 2020.

▲ Nordson remains committed to rewarding shareholders handsomely through dividend payments and share buybacks. In fiscal 2019, the company paid out dividends worth \$82 million to shareholders and repurchased shares worth \$115 million. Also, in fiscal first quarter, the company paid dividends worth \$21.9 million to shareholders. 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.

Reasons To Sell:

- ▼ Nordson is experiencing persistent softness in the Advanced Technology Systems segment. The segment's organic sales declined 2% in the first quarter of fiscal 2020 on a year-over-year basis due to continued softness in product lines supporting the electronic end markets. The company expects the weakness to persist in its electronics end markets in the near term. As a matter of fact, the company does not expect the electronic business to grow, in fiscal 2020. Over the past three months, Nordson's shares have declined 5.9% against the industry's growth of 3.4%. In the past seven days, the company's earnings estimates have been trending south, highlighting increasing bearish market sentiments. The Zacks Consensus Estimate for earnings has been lowered 2.7% to \$6.14 for fiscal 2020 and 2.4% to \$7.06 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 1.2% year-over-year growth in cost of sales in the first quarter of fiscal 2020. Higher costs and operating expenses might 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 26.91x and 22.29x. Notably, the company's multiple is higher than the industry's three-month highest level of 22.29x. This makes us cautious about the stock.
- ▼ International businesses have exposed Nordson to risks arising from unfavorable movements in foreign currencies and geopolitical issues. In both the fourth quarter of fiscal 2019 and first quarter of fiscal 2020, adverse impact from foreign currency movements lowered sales by 1%. For fiscal 2020, the company expects unfavorable foreign currency movements to adversely affect sales by about 30 basis points.

Softness in electronic business, 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 Q1 Earnings and Revenues Miss Estimates

Nordson reported weaker-than-expected first-quarter fiscal 2020 (ended Jan 31, 2020) results, wherein both earnings and revenues missed the Zacks Consensus Estimate.

Adjusted earnings, excluding one-time charges and gains, were 89 cents per share, missing the consensus estimate of \$1.05. Also, the bottom line decreased 3.3% from the year-ago figure of 92 cents, primarily on account of to lower sales.

Quarter Ending **01/2020**

Report Date	Feb 19, 2020
Sales Surprise	-0.75%
EPS Surprise	-15.24%
Quarterly EPS	0.89
Annual EPS (TTM)	5.84

Inside the Headlines

In the reported quarter, Nordson's sales were \$494.9 million, declining 0.6% year over year. The decline was attributable to about 1% decrease in organic volume and 1% adverse impact of unfavorable movements in foreign currencies. Revenues missed the Zacks Consensus Estimate of \$499 million. At the quarter end, backlog was \$430 million, down 1% year over year.

Region wise, revenues from the United States increased 10.7% year over year to \$188.5 million. Revenues generated from Japan decreased 4.8% to \$27.6 million and that from Asia Pacific declined 9% to \$121.4 million. Revenues from Europe fell 4.7% to \$126.4 million and that from the Americas declined 4% to \$31.1 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 fiscal first-quarter segmental performance is provided below:

Adhesive Dispensing Systems' revenues totaled \$207.2 million, decreasing 2% year over year. The decline was due to 1% fall in volume and 1% adverse impact of foreign currency translation.

Advanced Technology Systems' revenues were \$231.1 million, down 1.4% year over year. The fall was on account of 2% decrease in volume and about 1% adverse impact of foreign currency movements, partially offset by contribution of 1% from acquired assets.

Revenues generated from **Industrial Coating Systems** increased 8.9% year over year to \$56.6 million. Volume increased 9% while foreign currency movements had a negative impact of about 1%.

Margin Details

In the quarter, Nordson's cost of sales increased 1.2% to \$231.7 million. It represented 46.8% of sales compared with 46% in the year-ago quarter. Selling and administrative expenses increased 1.8% to \$188.1 million. It represented 38% of sales compared with 37.1% a year ago.

Earnings before interest, tax, depreciation and amortization were \$100.9 million, decreasing 6.4% year over year.

Operating profit decreased 10.9% to \$75.1 million. Margin came in at 15.2% compared with 16.9% in the year-ago quarter.

Balance Sheet & Cash Flow

Exiting the fiscal first quarter, Nordson's cash and cash equivalents were \$115.1 million, down 23.9% from \$151.2 million as of Oct 31, 2019. The company's long-term debt decreased 0.1% to \$1,074.3 million on a sequential basis.

In the first three months of fiscal 2020, the company generated net cash of \$116.3 million from operating activities compared with \$56.8 million in the year-ago period.

In the reported quarter, free cash flow was roughly \$102.5 million, up from around \$43 million a year ago. Capital spent on the addition of property, plant and equipment was \$13.9 million. During the quarter, the company paid out dividends of \$21.9 million.

Outlook

For fiscal 2020 (ending October 2020), the company anticipates organic sales to grow in the range of 1-3%.

Recent News

On **Feb 17, 2020**, Nordson ASYMTEK, a business unit of Nordson, announced that neutec electronic AG has expanded its representation of all ASYMTEK and DIMA products to Switzerland's French-speaking areas.

On **Feb 11, 2020**, Nordson's board of directors approved payment of a quarterly cash dividend of 38 cents per share to shareholders on record as of Feb 25, 2020. The dividend will be paid out on Mar 10, 2020.

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

Valuation

Nordson shares are down 3.5% year-to-date, while up 15% over the trailing 12-month period. Stocks in the Zacks sub-industry are up 2%, while the Zacks Industrial Products sector is down 2.9% in the year-to-date period. Over the past year, the Zacks sub-industry and the sector are up 17% and 2.6%, respectively.

The S&P 500 index has moved up 0.1% year to date and 14.7% in the past year.

The stock is currently trading at 24.22x forward 12-month earnings per share, which compares to 21.36x for the Zacks sub-industry, 17.74x for the Zacks sector and 18.44x for the S&P 500 index.

Over the past five years, the stock has traded as high as 27.29x and as low as 13.56x, with a 5-year median of 20.36x. Our Neutral recommendation indicates that the stock will perform in line with the market. Our price target of \$166 reflects 25.58x 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	24.22	21.36	17.74	18.44
	5-Year High	27.29	22.58	19.89	19.34
	5-Year Low	13.56	15.2	12.6	15.18
	5-Year Median	20.36	19	16.62	17.47
EV/EBITDA F12M	Current	17.15	12.81	17.81	13.54
	5-Year High	17.74	12.81	18.2	13.72
	5-Year Low	10.08	8.3	10.68	9.08
	5-Year Median	13.58	10.76	14.04	10.81
EV/Sales F12M	Current	4.83	2.78	3.14	3.32
	5-Year High	4.83	2.78	3.14	3.39
	5-Year Low	2.53	1.67	1.76	2.3
	5-Year Median	3.81	2.31	2.28	2.8

As of 02/25/2020

Industry Analysis Zacks Industry Rank: Bottom 20% (205 out of 255)



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	D	-	-	A	B	D
Market Cap	9.07 B	1.72 B	22.56 B	2.46 B	8.56 B	8.99 B
# of Analysts	5	3	13	2	3	7
Dividend Yield	0.97%	0.00%	1.88%	2.01%	1.31%	1.31%
Value Score	C	-	-	B	C	F
Cash/Price	0.01	0.05	0.04	0.05	0.04	0.02
EV/EBITDA	17.05	11.92	13.36	9.68	11.02	19.09
PEG Ratio	2.05	2.15	1.94	NA	1.14	3.38
Price/Book (P/B)	5.55	2.29	3.09	2.56	3.28	8.71
Price/Cash Flow (P/CF)	19.99	11.48	12.57	9.15	12.69	23.85
P/E (F1)	25.86	18.33	17.93	14.81	17.04	27.02
Price/Sales (P/S)	4.14	1.39	2.51	0.71	1.78	5.46
Earnings Yield	3.92%	5.43%	5.55%	6.75%	5.87%	3.70%
Debt/Equity	0.66	0.53	0.70	0.91	0.51	0.16
Cash Flow (\$/share)	7.86	2.74	7.02	6.96	12.06	2.24
Growth Score	C	-	-	B	B	B
Hist. EPS Growth (3-5 yrs)	NA%	7.79%	10.85%	13.61%	11.77%	14.76%
Proj. EPS Growth (F1/F0)	4.94%	5.38%	6.86%	-2.49%	9.42%	4.28%
Curr. Cash Flow Growth	-1.46%	10.41%	6.53%	35.35%	19.98%	0.13%
Hist. Cash Flow Growth (3-5 yrs)	7.90%	6.52%	8.38%	13.96%	13.96%	7.47%
Current Ratio	2.71	2.02	1.22	2.72	1.95	2.77
Debt/Capital	39.66%	34.99%	42.37%	47.61%	33.67%	13.82%
Net Margin	15.54%	6.24%	11.57%	3.85%	9.83%	20.89%
Return on Equity	21.78%	12.91%	16.80%	17.79%	18.21%	34.45%
Sales/Assets	0.62	0.79	0.54	1.46	0.89	1.01
Proj. Sales Growth (F1/F0)	2.00%	0.01%	4.03%	-0.89%	4.61%	1.99%
Momentum Score	F	-	-	A	B	F
Daily Price Chg	-4.51%	-2.43%	-3.36%	-2.88%	-3.74%	-2.96%
1 Week Price Chg	-4.11%	-0.62%	-0.94%	-3.58%	-0.59%	0.55%
4 Week Price Chg	-10.36%	-5.35%	-5.65%	-2.85%	-2.14%	-2.76%
12 Week Price Chg	-4.19%	-1.87%	-1.04%	0.81%	-0.79%	12.60%
52 Week Price Chg	14.93%	-2.61%	8.00%	6.95%	23.91%	13.68%
20 Day Average Volume	226,488	46,232	2,073,853	217,554	487,770	818,288
(F1) EPS Est 1 week change	-2.38%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-1.35%	-0.31%	-0.06%	0.00%	0.37%	5.80%
(F1) EPS Est 12 week change	-3.84%	-1.06%	-0.19%	-1.38%	-1.82%	6.28%
(Q1) EPS Est Mthly Chg	-5.08%	-3.52%	-0.61%	0.00%	-12.96%	4.71%

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	C
Growth Score	C
Momentum Score	F
VGM Score	D

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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