

Company Description and Background

Nordson engineers, manufactures and markets differentiated products and systems used for precision dispensing, applying and controlling of adhesives, coatings, polymers, sealants, biomaterials, and other fluids, to test and inspect for quality, and to treat and cure surfaces. Nordson serves a wide variety of consumer non-durable, consumer durable and technology end markets including packaging, nonwovens, electronics, medical, appliances, energy, transportation, building and construction, and general product assembly and finishing. Equipment ranges from single-use components to manual, stand-alone units for low-volume operations to microprocessor-based automated systems for high-speed, high-volume production lines.

Product Lines include *Adhesive Dispensing Systems* that are used for applications that commonly reduce material consumption, increase line efficiency and enhance product strength, durability, brand and appearance. This group is broken into Nonwovens with strategic markets include adult incontinence products, baby diapers and child-training pants, feminine hygiene products and surgical drapes, gowns, shoe covers and face masks; Packaging with strategic markets that include food and beverage packaging, pharmaceutical packaging, and other consumer goods packaging; Polymer Processing with strategic markets that include flexible packaging, electronics, medical, building and construction, transportation and aerospace, and general consumer goods; and Product Assembly with strategic markets that include appliances, automotive components, building and construction materials, electronics, furniture, solar energy, and the manufacturing of bags, sacks, books, envelopes and folding cartons. *Advanced Technology Systems* is the next product line found in progressive stages of a customer's production process, such as surface treatment, precisely controlled automated, semi-automated or manual dispensing of material, and post-dispense bond testing, optical inspection and x-ray inspection to ensure quality. Related single-use plastic molded syringes, cartridges, tips, tubing and fluid connection components are used to dispense or control fluids in production processes or within customers' end products. Sub-Segments include Electronics Systems with strategic markets including the breadth of the electronics industry manufacturing supply chain that produces semiconductor, printed circuit board assemblies and electronic components; Fluid Management used in precision manual and semi-automated dispensers, minimally invasive interventional delivery devices, and highly engineered single-use plastic molded syringes, cartridges, tips, fluid connection components, tubing, balloons, and catheters; and Test and Inspection used in the semiconductor and printed circuit board industries. *Industrial Coating Systems* is the final segment which both standard and highly-customized equipment used primarily for applying coatings, paint, finishes, sealants and other materials, and for curing and drying of dispensed material. This segment primarily serves the industrial capital equipment and consumer durables markets.

Nordson (NDSN)

Industrials

**Machinery – Precision
Technology - Fluid Dispensing**

**Key Markets: Consumer Goods;
Industrial; Medical; Semi Supply
Chain**

**Thematic Tailwinds: 5G;
Industrial Automation; Emerging
Market Growth**

**Revenues Breakdown: 70% Non-
US; 54% Recurring**

3 Year Average ROIC: 10%

**EBITDA Margins 3 Year Average:
25%**

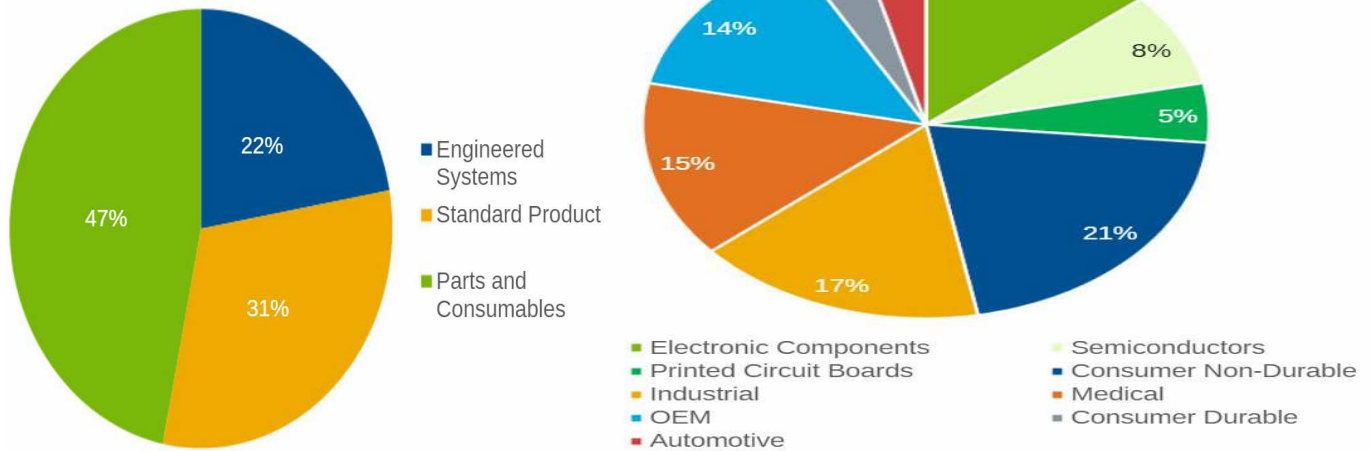
**Levered FCF Margin (3 Years):
16%**

**Debt/EBITDA (3 Year Average):
2.3X (Covenant is 3.7X)**

R&D % of Sales: 3%

Nordson drives organic growth by continually introducing new products and technology, providing high levels of customer service and support, capturing rapidly expanding opportunities in emerging geographies, and by leveraging existing technology into new applications. Additional growth comes through the acquisition of companies that serve international growth markets, share business model characteristics and can leverage its global infrastructure.

Product Type

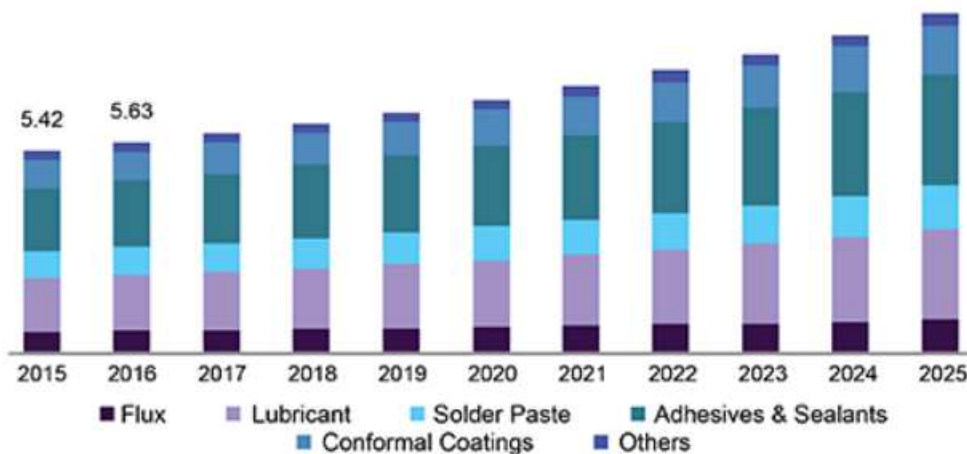


Industry Analysis and Market Opportunity

Nordson does not have a lot of direct comparable and is difficult to do an industry analysis as it is involved in so many different businesses with diverse end-markets. It has a unique set of defensive and cyclical businesses and is a best-in-class operator with a long history of acquisitions.

The global fluid dispensing systems market size accounted for \$35.6B in 2018 and is estimated to expand at a CAGR of 6.7% by 2025. Growing demand for systems in end use industries such as electrical and electronics, automotive, and construction applications is anticipated to drive the growth. Proliferation of latest technologies enabling automation in industries has fueled growth of fluid dispensing systems (FDS) and equipment market. The continuously increasing demand for efficient and accurate systems for dispensing fluids which can replace the manpower engagement is expected to help the market to expand in the future. Factors such as strict regulations imposed on manufacturing and stimulating awareness regarding material wastage are expected to give rise to steady growth in the fluid dispensing equipment market.

U.S. fluid dispensing system market size, by product, 2015 - 2025 (USD Billion)



Customers and Costs

NDSN serves a broad customer base, both in terms of industries and geographic regions. In 2019, no single customer accounted for ten percent or more of sales.

Production operations include machining, molding and assembly. Principal materials used are metals and plastics, typically in sheets, bar stock, castings, forgings, tubing and pellets. NDSN also purchases many electrical and electronic components, fabricated metal parts, high-pressure fluid hoses, packings, seals and other items. While these items are generally available from multiple sources, the cost of products sold may be affected by changes in the market price of raw materials and tariffs on certain raw materials, particularly imports from China, as well as disruptions in availability of raw materials, components, and sourced finished goods.

Competitors & Risk Factors

General: In 2019, approximately 35% of revenue was generated in the United States, while approximately 65% was generated outside the United States. A general slowdown in the global economy or in a particular region or industry or an increase in trade tensions with U.S. trading partners could negatively impact business, financial condition or liquidity. Largest markets include consumer non-durable, industrial, medical, electronics, consumer durable and automotive. A slowdown in any of these specific end markets could directly affect the revenue stream and profitability.

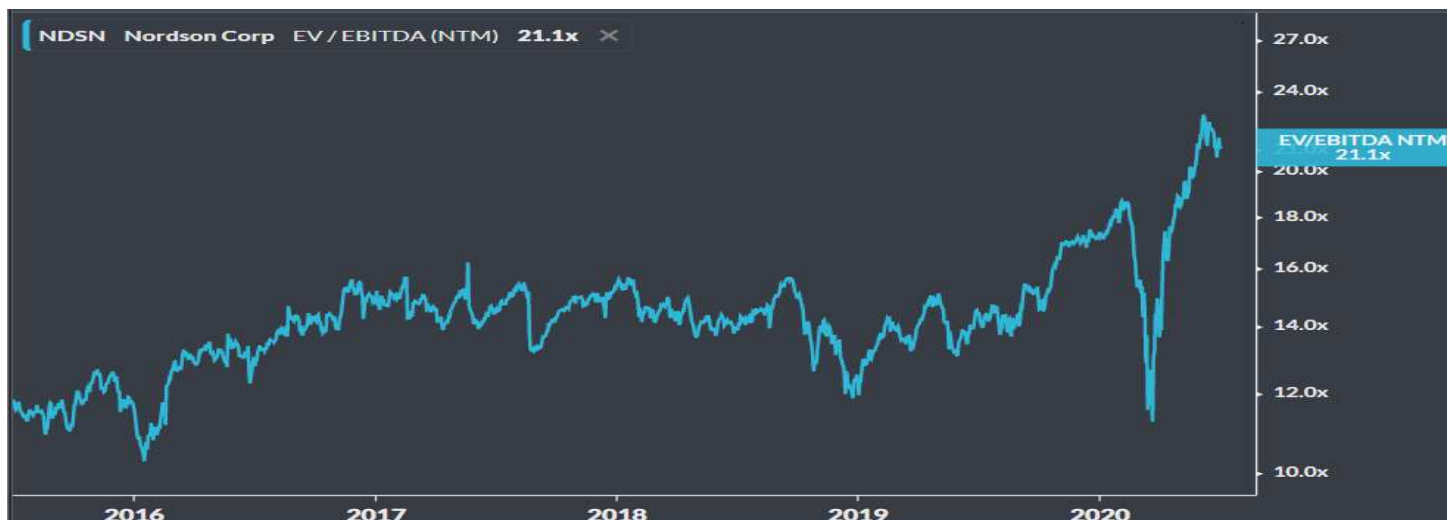
Private competitors include Dymax, Flsmar, and Velco Melton while Graco (GGG) a large public competitor as was LORD which was acquired by Parker Hannifin (PH). Henkel AG is an International competitor. Dover (DOV) and 3M (MMM) have segments that compete.

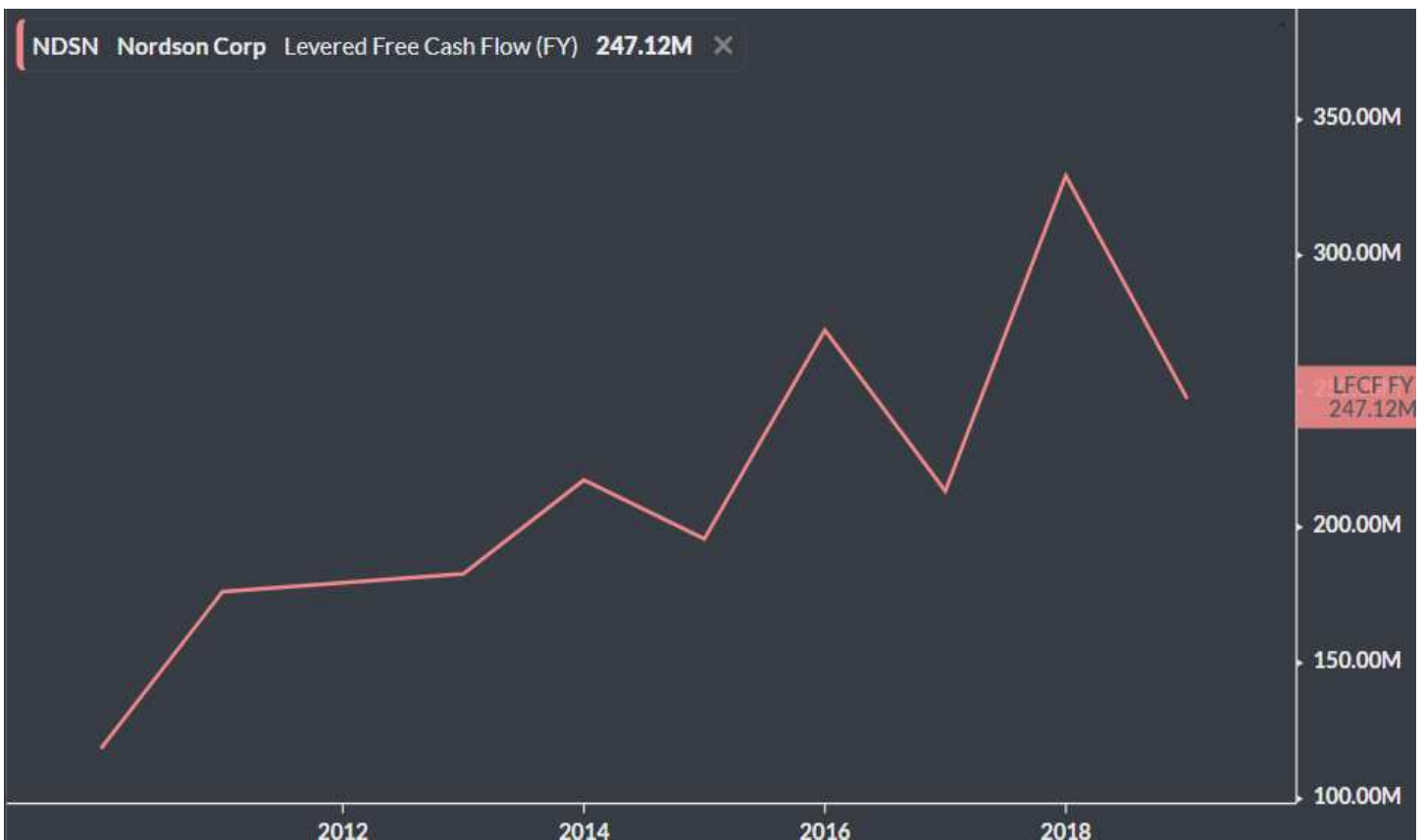
Key Metrics and Seasonality

Generally, the highest volume of sales occurs in the second half of the year due in large part to the timing of customers' capital spending programs. Accordingly, first quarter sales volume is typically the lowest of the year due to timing of customers' capital spending programs and customer holiday shutdowns.

Key Metrics for Nordson include valuation metrics such as EV/EBITDA, growth metrics with EBITDA growth, FCF growth, and profitability/efficiency metrics such as EBITDA margins and ROIC. Investors tend to pay attention to order book trends on the conference calls.

Ratios and Valuation (Current vs. Historical)





Management Commentary

“In the ATS, really, our medical product lines are doing really well. We see pretty nice trends there. It is really all around the pulmonary and cardiac bypass machine applications. We have a number of connectors and things that we use in ventilators and other applications and in testing kits as well. So we see good strength in medical applications. We have some really good applications around semiconductor for our electronics dispense businesses. PC Board, in general, is also really up. Where we see weaknesses in ATS is really dispense applications for industrial end markets.”

On Capital Allocation (5/21/2020)

“Our #1 priority is continuing to fund our internal organic growth initiatives. Just remember that Nordson is an asset-light business model, hence, we spend about 2% to 3% of our revenue on CapEx for internal projects. We continue to plan to do that. In terms of we have a good dividend policy that, we continue to increase dividend in line with our earnings. We'll continue to do that. And if you think about our share repurchases, our share repurchases are mainly -- our baseline strategy is to offset dilution from compensation plans, and we intend to do that. And finally, when you think about acquisitions, acquisition is an important key growth lever for the company, we want to use acquisitions to allow us to continue to diversify the portfolio we're in, but we're going to be disciplined. We want to acquire things that make Nordson really strong and special. That is really all about acquiring assets and properties that allow us to create precision technologies that create value for our customers. So we're going to stay disciplined to that. We've clearly identified where we want to focus on acquisitions, which is really medical and test and inspection. And maybe if there are bolt-on opportunities in our strong core businesses where we add a lot of value, we will certainly act.”

On 5G

“Around 5G, let me talk to you a little bit about what we are seeing today and where we are and what the opportunity looks like. 5G, in general, is a growth driver for us. It is going to be an important growth driver, not only just in the mobile set, but it's also going to be in the base infrastructure for 5G. We're going to have opportunities in IoT devices. We're going to have opportunities in auto electronics. We're going to have opportunities in consumer electronics. So it's going to be a pretty broad-based opportunity for the company. The rollout of 5G certainly is slower than we had all hoped and would like for a number of different reasons. Still, it's technology that is getting sorted out. There is some issues around supply chains. We participate in 5G across a number of things. We start with the semiconductor. As we've talked to you about on our electronics side, we're really highly diversified across the entire supply chain. So we start with the semiconductors, where somebody is making a chip for a 5G application, we certainly work with component manufacturers who then integrate these into filters or switches or antennas. We certainly participate there. Then you have PCB board manufacturer who assemble those components on a board, and then you have the end product application. So we participate in all of these. For 5G, where we're seeing most of the activity is mostly on semiconductors. We're seeing some activity in PC boards. We're also seeing some activity in the components. But overall, we're well positioned, but it will be a matter of timing. And due to this environment, it's really difficult for us to say that this would be -- we know long term, it's an important driver for us.”