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<<Mike Halloran, Analyst, Robert W. Baird & Co.>>

Good evening, everybody. My name is Mike Halloran. I'm Industrial Analyst here with Robert W. Baird, and we're pleased to once again welcome Nordson with us. With us today is recently – somewhat recently appointed President and CEO, Sundaram Nagarajan. He's going to give some prepared remarks, maybe about 10 minutes or so. And then we are going to follow that up with a Q&A session.

You guys know the drills. If you have a question, raise – you raise your hand, I'll call in you, or fire me an e-mail and I'll get it on the iPad. You should have e-mail address in the card in front of you. So if you have any questions, send it our way, and we'll make sure we weave it in. With that, please, Naga, floor is yours.

<<Sundaram Nagarajan, President & Chief Executive Officer>>

All right. Great. Thank you, Mike. Thank you for joining us today at the 2019 Baird Industrial Conference. My name is Sundaram Nagarajan, and I joined Nordson as the CEO and President in August of 2019. I'm excited to join this company, which has grown profitably over the last 65 years, by focusing on the needs of its customers and creating differentiated value. I look forward to leading Nordson in its next chapter of growth and innovation. Before I sit with Mike, I'd like to give you a high-level overview of Nordson.

Firstly, I'd like to remind you that we may use forward-looking statements in today's discussion. These statements are made based on known events and circumstances at the time of our last release, which was published on August 20, 2019, with our fiscal quarter – fiscal third quarter results. These statements are subject to unforeseen uncertainties and risks that could cause the results to differ.

Nordson is an industrial technology company focused largely on fluid dispensing and adjacent technology and processes. We are differentiated by our customer-centric model, think about us as having direct sales and service capabilities and teams in place in most of the countries we operate, market-leading precision technologies and innovation based on our passion to solve customers' problems and create differentiated value.

Over the past 65 years, this model is – has Nordson grown into a $2.3 billion revenue manufacturer with leading margins. Strength of our company is really in the diversity, starting at, if you take a look at our product mix, 47% of our business is recurring revenue, aftermarket parts and consumables. Over 70% of our business is outside the United States. And in many – in few of those areas, we have targeted manufacturing presence. We're also diverse in the end markets we serve. We get a lot of questions about our electronic business, which is about 27% of our revenue in fiscal 2018.

This includes our dispense and test and inspection across electronic supply chain from integrated circuits to printed circuit boards and product assembly. Our products are involved in a wide variety of applications from computing to automotive electronics to semiconductors to mobile phones. While this is cyclical part of our business, we believe this market has tremendous growth opportunities for the company, and we are focused on this. The other 73% of the company is more steady, less cyclical, based on consumer non-durable end markets, medical and industrials.

Through the cycle, Nordson achieves a growth of approximately 1.5 to two times global GDP. The company is operated in three segments. First is our Advanced Technology segment, which is 46% of the company, and it's really the growth engine of the company. It consists of electronics and our medical businesses. Our expectations for this segment is that it typically grows from two to three times global GDP.

Our Adhesive Dispensing Systems business is about 42% of the company. And our expectations here are about 1.2 to two times GDP. Our Industrial Coating Systems business is the smallest part of the company. And it really is a GDP type grower. Our key priorities really remain consistent. I've just completed 90 days at the company, and I believe, our greatest growth opportunities are ahead of us and our priorities remain consistent.

Our first priority is to accelerate organic growth. And really, we've been demonstrating this organic growth through emerging market penetration, new product innovation, new application development and certainly recapitalizing the large installed base we have. The second priority really is diversifying our portfolio through acquisitions. And we have a very strategic discipline around those and the criteria are really a strong strategic fit to the company, which is really based on a customer-centric model and precision technology, strong performing businesses, high recurring revenue and certainly reasonable multiples.

As we grow the company, we will do so profitably by leveraging and maturing the Nordson business system. I'm also pleased to join this company as it invests in the communities we work and live in. Nordson invests about 5% of its pretax domestic profits to the Nordson Corporation Foundation to fund this work. Thank you for taking time to get to know Nordson. And now I'll be pleased to sit with Mike and answer your questions.

<<Mike Halloran, Analyst, Robert W. Baird & Co.>>

Great. Well, appreciate it. Thank you for the intro. I think – sorry, I missed that. I get that a lot. So we're obviously not going to be digging into what's your grand three-to five-year strategic vision as you've only been here 90 days. But what I think is appropriate to ask is why was Nordson the right opportunity for you? You obviously come from a very well-run company, ITW, great opportunities there. What was it about, the values, the product set, the innovation, the culture, what was it that brought you here?

<<Sundaram Nagarajan, President & Chief Executive Officer>>

Right. I think there are three or four things. I have a long list, but I would highlight three of them. And first is really the business model we talked about. The customer-centric business model the company has that creates this intimacy that allows the company to have this incredible advantage of understanding where the customer is headed, how the business functions. In a lot of ways, our teams understand our customers' businesses, in many ways, significantly better. And so that customer-centric business model was certainly an attractive piece of it.

Innovation, market leading technologies, again, was very a very attractive part. I had known the company in certain parts of it. And so – and it was well-publicized in terms of their patent portfolio, in terms of the technologies they've developed over time. So that was very attractive. The third piece really, from the outside, it's very difficult to figure out the culture, but what you can really say is the company invests 5% of its pretax income to work in the community, which is very similar to the former company that I worked for.

And so if I take a look at the financial performance, take a look at the customer-centric model, look at the innovation and then layer in on the culture, I said, boy, this is an opportunity to be very difficult to say no to.

<<Mike Halloran, Analyst, Robert W. Baird & Co.>>

And obviously, a very well-run company to begin with.

<<Sundaram Nagarajan, President & Chief Executive Officer>>

Yes.

<<Mike Halloran, Analyst, Robert W. Baird & Co.>>

It's got differentiated growth for as long as I can look back. What are you going to bring to the table? Because obviously, this isn't a broken company by any stretch. What's the incremental opportunity that you think you can add?

<<Sundaram Nagarajan, President & Chief Executive Officer>>

Yes. And then I'll tell you, this is really in case of and rather than iterative, right? So it is a great company, as you indicated. And everything that I'll tell you, for those of you who have followed the company will know that, it's a fantastic company. The biggest opportunity for the company is really growth going forward, right? I mean as we have continued to grow, how do we sustain our growth. We are $2 billion. We doubled the size in the last 10 years. What is the opportunity in front of us, right? What I bring to the table is really – if you look at ITW, the businesses I ran at ITW are businesses that grew significantly, right?

And typically, there were businesses that were innovation, customer-focused growth and profitable growth, right? So those would be complementary skill set to allow me to continue to help the company going forward. But what I would also bring and the highlight would be operated in a multi-industry, large, fairly complex company. So I've seen the journey of the

company go from $3.5 billion to $18 billion over a period of time. And so I grew up with the company and certainly understand what it takes to scale up a company.

And certainly, the scale and complexity of a larger corporation, certainly has lots of benefits for Nordson, right? And over time, I've run businesses across the world, a global operating capability certainly helps, build teams around the world to sustain this kind of growth. And I think, at Nordson, we have to do the same. Finally, if you take a look at NBS, which is Nordson Business System, which is – we're early in our journey of lean.

We're probably six, seven years into. I come from a company that was 20, 30 years in practice of those things. It is not so much about how do we use NBS to expand margins as much as how do we use NBS to sustainably grow the business, sustainably improve customer-facing metrics, how do we sustain the growth, how do we develop teams so that we can continue to grow.

<<Mike Halloran, Analyst, Robert W. Baird & Co>>

So, two more high level questions, maybe just walk through how – what your capital investment philosophy is? How do you look at allocation of what is a good, strong free cash flow profile internally, externally? What metrics are you personally focused on? Is it an ROIC and cash focus?

<<Sundaram Nagarajan, President & Chief Executive Officer>>

The company is in a very fortunate place in that we generate more – convert 100% of net income to free cash flow, right? And so it's a very strong position. And our capital allocation is so consistent with what we've done in the past. And so our first priority is really to fund organic growth initiatives. If you look at organic growth initiatives internally, it is not equally split among our businesses. It's really dependent on the growth opportunities we have, right? And if you think about the next priority is really M&A. On M&A, in terms of returns, the company has really focused around having a very differentiated view of what kind of expectations and returns do we have.

So for bolt-ons, it's a more shorter-term period to reach our hurdle rates. But for our acquisitions in medical, for example, in intervention or something like that, where we have paid market multiples but have invested for the longer-term and said, it is going to take us longer to reach that hurdle rate. So that's sort of how we think about it. We certainly want to continue our dividend payout that we've got, 55 years of increases in dividend. And opportunistically, if there'll be an opportunity for us and we have the cash that is left over, we would certainly buy back shares.

<<Mike Halloran, Analyst, Robert W. Baird & Co>>

And when I think about your personal philosophy? Does it sync very well with that? I mean are you more ROIC-oriented and growth oriented? Is that…

<<Sundaram Nagarajan, President & Chief Executive Officer>>

Yes, if you think about the greatest opportunity, this is sort of what – where I come from is really spending the time on having a good balanced investment within the company for organic, balancing with acquisitions, right? Because the opportunity for Nordson really is strategic profitable growth. And we have both organic and acquisition growth. And so really staying focused on those two is sort of how I think about it.

<<Mike Halloran, Analyst, Robert W. Baird & Co>>

So then last one at a high level, where are you spending all your time right now? First 90 days in, what has been the priority set?

<<Sundaram Nagarajan, President & Chief Executive Officer>>

Yes, the first 90 days really, I've spent more than 60%, 70% of my time in the businesses. So we've traveled to all the major sites in North America. We've been to a couple of sites in Europe. We're headed to Asia in December. And in left over time, we certainly try to get to know all of you and spending some time in the marketplace here, getting to know our Board. And so – but disproportionately inside the business, I would say.

<<Mike Halloran, Analyst, Robert W. Baird & Co>>

And then, let's start to get into the business a little bit. This is the first one from the audience here. Dispensing is a key element of the growth profile longer-term and very differentiated. Can you expand on the precision dispensing business in terms of growth, addressable market, competitive landscape and where profitability can continue to go?

<<Sundaram Nagarajan, President & Chief Executive Officer>>

Yes. So I'm assuming that dispensing question is around our adhesive business.
<<Mike Halloran, Analyst, Robert W. Baird & Co>>

Yes, that's how I characterize it.

<<Sundaram Nagarajan, President & Chief Executive Officer>>

Right? They did not – it was not specified, but that's what I would have guessed.

<<Mike Halloran, Analyst, Robert W. Baird & Co>>

Yes. So I'm going to – I'm probably going to ask the same question on the electronics side, anyways. So we can cover both side.

<<Sundaram Nagarajan, President & Chief Executive Officer>>

So – that's fine. We'll start with adhesives. The adhesive side of the business, we certainly don't talk about our market opportunity. But what I can tell you, it's a dominant market position, it's a

market-leading position, certainly earned through the technology and the customer centricity we have there. Our opportunity really there is around organic growth and typical expectations for us, and we have demonstrated over the last five years is about 1.5 to 2times global GDP is what that segment of business is doing?

And how do we do that? Really, we have four pillars, right? The first one is really all about emerging markets. So think about our hot melt adhesive subsystems that go on a packaging line. So most of these packaging lines or packaging OEM customers are making lines that go into Africa to Middle East. So as that market expands, for beverage – packaged beverages, diapers and any of that consumer non-durable goods, we're seeing a big opportunity for us to support our OEM customers and build infrastructure. So emerging market growth is a big lever. The second one is really product innovation.

We continue to innovate through product tiering. We played at the high end of the market over the last few years, we've started tiering the products. Now we are able to meet mid-tier or about mid-to low-tier, but that's sort of where we would start. We're not going to go into the lowest end of the market. And the third leg of this is really think about new applications. And we've talked about this a couple of times, which is we are constantly looking for new applications where you are able to replace the existing manufacturing technology with bonding.

So think about fabric bonding. So this is – I wouldn't want to have you take away that this is going to be the next big home run instead it is illustrative of how the business continues to expand its opportunity. So fabric binding is an interesting one, because we are beginning to replace stitching in some specific applications. And it's an interesting application. Just an example of how we are focused on continuing to develop new applications. And the last leg of it is we have a large installed base. So it certainly helps us to continue to bring new products to be able to help our customers run the lines faster, to recap, we're able to generate organic growth.

<<Mike Halloran, Analyst, Robert W. Baird & Co.>>

And on that last point, and aftermarket and parts, somewhere around 45%, 50% of the portfolio. That installed base has grown over the long term, pretty aggressively. That gives you an entitled base of growth on a forward basis? And how do you think about your capture rate and your ability to monetize that business? And lastly, what it means for resilience of the business and variable growth?

<<Sundaram Nagarajan, President & Chief Executive Officer>>

Yes. So if you think about – as you said, Mike, in this particular segment, it is probably more in the 50-plus percent rather than in the 40. So it is a great part of the company because it is really important for us, and it is sort of illustrates our customer-centric business model that we have. Since we are closest to the customer, in a lot of ways, our end-use customers begin to rely on us to make sure that their lines are running. And so we are able to capture this recurring revenue.

And invariable, when you have a macro event, we have – typically, that has helped us. 47% of the company is recurring revenue, not only our aftermarket parts, but some consumables as well.

So that helps us. So that is number one. The number two really is, as you think about most of these lines, as customers add features to their product. So if you're in a diaper line and if you make a standard diaper, and you have all of a sudden starting to change or add a feature on lotion or scent, that is a new opportunity for us. It is a new dispense that is going to go on an existing line. So that's sort of how we benefit. Really, it is through change, it's certainly through recurring revenue as well.

<<Mike Halloran, Analyst, Robert W. Baird & Co.>>

It's a good transition point then to the electronics side of the business where you also tend to be big beneficiary of any of these changes, product reforms – product refreshes. Maybe put that segment in context of what your competitive positioning is, and how you're looking at the growth opportunity? Just the electronics piece. We'll do medical last.

<<Sundaram Nagarajan, President & Chief Executive Officer>>

Yes, absolutely. So the electronic business is certainly the cyclical part of the business, it's the business where we get the most questions. I'm glad you're asking me the opportunity profile of electronics, because we are really excited about it, right? If you think about that business over the cycle, over the 5 years through a 10-year cycle, this part of our business is a growth engine for the company.

And the reason it is, is every time there is a change, it's a new opportunity for Nordson, right? We're really good at a couple of different things. There are many applications in each manufacturing. But think of us as playing broadly in the electronic supply chain, all the way from semiconductors to printed circuit boards to end product assembly, right? That's sort of – you want to think of us as the entire supply – electronic supply chain. And what we're really good at is when you have complex stacking of dies, right?

Or complex components that you have to attach to a board. That is really where we come in. Or you have a very complex device, a very miniaturized device and the position of the underfill or the position of what you apply on the board to connect these, that's where we do really well. Certainly, that is one piece of the business. The second application really is conformal coating. It is to coat and protect either the package or the device or the end product. And there are many in between. We also have a plasma business that allows us to clean a PCB board before the – this is applied. So a number of different applications. We are excited about this because over the cycle, we have demonstrated this can grow about two to three times GDP.

<<Mike Halloran, Analyst, Robert W. Baird & Co.>>

So comps have been difficult, and you're going in some really robust period. Trends have been a little softer in some of – many of the electronics or semiconductor markets. What's your sense that we're towards the bottom here? And how do you think about the opportunity as we get into next year on product refresh opportunity or any of the other key catalysts that might drive a little bit more robust environment for that business segment?

<<Sundaram Nagarajan, President & Chief Executive Officer>>

Certainly, this business follows the electronic tax cycle, right? So as of the third quarter, what we did share with you in our third quarter results is that this part of our business, really, on a year-on-year basis is sort of starting to stabilize now, right? We'll release earnings here in December. Certainly, we'll be in a better place to talk about where we're going into the next year. But longer term, if you want to think about this business, complexity and change and innovation in our customers helps Nordson, because Nordson is able to deliver very differentiated, very precise high-speed dispense as well as test and inspection equipment.

<<Mike Halloran, Analyst, Robert W. Baird & Co.>>

So when you think about the medical-use of the portfolio, a somewhat recent addition, how much opportunity set, do you see to add inorganically to this piece. It's a high single-digit grower, much more consistent, less cyclical than the rest of the pieces. What's the landscape look like? And what's the opportunity set look like?

<<Sundaram Nagarajan, President & Chief Executive Officer>>

So think about the medical business, there is lots of different things that could mean medical and so probably put a context around it. Where we are focused is we are really focused on core components that make up delivery systems for medical device manufacturers. So a good example would be – think of a valve replacement application or a stent application. We manufacture the delivery mechanism, the catheters, the balloon, the connectors, all of that, that takes to safely take and properly move that stent through the patient's body and deliver it at the place of therapy, right? That's what we do.

And so that's the market we're focused on. What we find is it's still highly fragmented, but those are smaller properties. There are many others we could do, but we are really very focused around the differentiated core components that sort of – I gave you an example of minimally invasive therapy, but there are many others. And so that's where we are focused. Could we continue to acquire here? The answer is yes. Can I scope that for you? No, no, I really can't scope.

<<Mike Halloran, Analyst, Robert W. Baird & Co.>>

Nor do I want you to. Last one then is just – are there any limitations to you going out and adding these tuck-in acquisitions at this point in time in your tenure? Or is the pipeline full enough and the ability of the organization full enough to bring something in?

<<Sundaram Nagarajan, President & Chief Executive Officer>>

Yes. I – we're really not constrained by our own capability to bring something in, it is really going to be a matter of what is available. And more importantly, how it fits the company.

<<Mike Halloran, Analyst, Robert W. Baird & Co.>>

Great. Please join me in thanking Nordson for their time today. Management will be available downstairs in the Walton Room for brief breakout session presenting. Next in this room is Advanced Drainage. iRobot Corporation will be the North Ballroom. Aquaventure Holdings is in the State Room. Lydall is in the LaSalle Room. Mauser Packaging Solutions is in the Delaware Room. Thank you for your time.