



Tennant Company (TNC)

Updated November 12th, 2024 by Jonathan Weber

Key Metrics

Current Price:	\$88	5 Year CAGR Estimate:	12.5%	Market Cap:	\$1.7B
Fair Value Price:	\$108	5 Year Growth Estimate:	7.0%	Ex-Dividend Date:	11/29/24 ¹
% Fair Value:	82%	5 Year Valuation Multiple Estimate:	4.2%	Dividend Payment Date:	12/16/24 ²
Dividend Yield:	1.3%	5 Year Price Target	\$151	Years Of Dividend Growth:	54
Dividend Risk Score:	A	Retirement Suitability Score:	B	Rating:	Buy

Overview & Current Events

Tennant Company is a machinery company that produces cleaning products and that offers cleaning solutions to its customers. In the US, the company holds the market leadership position in its industry, but the company also sells its products in more than 100 additional countries around the globe. Tennant was founded in 1870.

Tennant Company reported its third quarter earnings results on October 31. The company announced that it generated revenues of \$316 million during the quarter, which was 4% more than the top line number from the previous year's quarter. This was slightly better than the recent trend, as revenue had grown less on a year-over-year basis during the previous quarter. Revenues were lower compared to what the analyst community had forecasted.

Tennant Company generated adjusted earnings-per-share of \$1.39 during the third quarter, which was less than what the analyst community had forecasted, and which was down 10% compared to the previous year. Management is forecasting that adjusted earnings-per-share will fall into a range of \$6.15 to \$6.55 in 2024, which means that earnings will not grow this year. At the midpoint of the guidance range, \$6.35, Tennant's earnings-per-share would be down compared to the \$6.57 the company earned in 2023, although Tennant has a history of beating its guidance.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$2.70	\$2.49	\$2.59	\$1.54	\$2.17	\$3.78	\$2.91	\$4.39	\$4.10	\$6.57	\$6.35	\$8.91
DPS	\$0.78	\$0.80	\$0.81	\$0.84	\$0.85	\$0.88	\$0.92	\$0.94	\$1.00	\$1.08	\$1.18	\$1.51
Shares³	18.4	17.7	17.7	17.9	18.3	18.6	18.6	18.8	18.7	18.9	18.8	18.5

Tennant Company's earnings-per-share were quite lumpy over the last decade. Overall, the trend pointed upwards, but there were a lot of ups and downs with several pullbacks; the company has not been able to grow its earnings very consistently. During the Great Recession, Tennant Company's earnings-per-share were roughly cut in half, from \$1.35 in 2008 to \$0.65 in 2009. The company was able to recover quickly from the impact of the last financial crisis, however. Overall, despite the inconsistent year-over-year growth, Tennant Company recorded an average annual earnings-per-share growth rate of 10% between 2014 and 2023.

Tennant Company has plans to grow its sales inorganically, especially in the Asia/Pacific region, where it benefits from above-average market growth rates. The takeover of Chinese cleaning equipment company Gaomei improved Tennant's sales outlook in the Chinese market, as well as in other Asian markets. Investments in the business in Asia will increasingly pay off and should deliver solid earnings growth for Tennant in the coming years, we believe. Tennant Company felt a considerable impact from the pandemic, but recovered in a timely manner. While earnings-per-share growth could remain lumpy and uneven in the future, we believe that there will be solid profitability improvements in the long run. For now, our earnings-per-share growth estimate over the coming years is 7%, which is slightly lower than the growth rate over the last decade, when Tennant was smaller and growth was easier to come by.

¹ Estimated date

² Estimated date

³ In Millions

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	25.1	25.1	22.7	44.9	24.0	22.1	24.1	18.5	15.1	14.0	13.9	17.0
Avg. Yld.	1.1%	1.3%	1.4%	1.2%	1.7%	1.1%	1.3%	1.2%	1.6%	1.2%	1.3%	1.0%

Tennant Company has been valued at high multiples throughout much of the last decade. This is somewhat surprising, as Tennant Company is not an ultra-high-quality company. Its growth has been solid, but not outstanding. We believe that an earnings multiple of more than 20 is not justified. Based on our earnings-per-share estimate, shares are still trading well below what we deem a fair valuation for the company right now.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	28.9%	32.1%	31.3%	45.5%	39.2%	23.3%	31.6%	21.4%	24.4%	16.4%	18.6%	16.9%

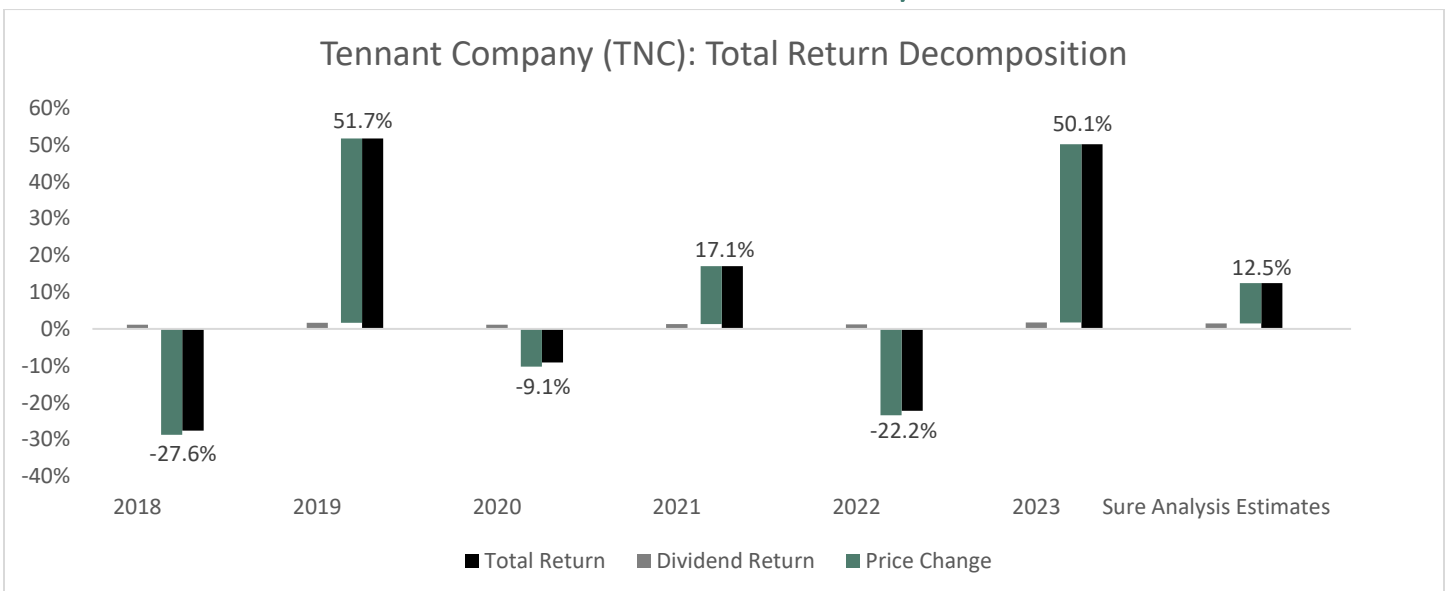
Tennant Company's dividend payout ratio was quite high during the Great Recession, due to the company's below-average profitability during that time. Since then, the payout ratio has declined to a very sustainable level, however. It seems unlikely that Tennant Company could be forced to cut its dividend, but due to its relatively low dividend yield Tennant nevertheless does not look like an attractive income stock, it is more of a capital appreciation play.

Tennant Company is the leader in the US cleaning machines market. This serves as a competitive advantage, as Tennant Company's market leadership allows for better economics of scale and a superior sales network compared to its peers. During the last financial crisis, Tennant remained profitable, but its earnings still suffered considerably. Tennant therefore has exposure to economic downturns, which was also visible in 2020's results, as the coronavirus impact resulted in lower sales and profits. In future major downturns, earnings would likely decline temporarily as well.

Final Thoughts & Recommendation

Tennant Company is the leader in the niche market that the company serves. Organic growth in China could allow for a solid growth performance over the coming years, which is why we forecast a meaningful earnings-per-share growth rate going forward. 2023 was a record year for the company, and while profits are expected to dip slightly this year, Tennant's shares promise compelling total returns, which is why we rate them a buy at current prices.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	822	812	809	1,003	1,124	1,138	1,001	1,091	1,092	1,244
Gross Profit	352	349	352	400	445	462	408	438	421	528
Gross Margin	42.9%	43.0%	43.5%	39.9%	39.6%	40.6%	40.7%	40.2%	38.5%	42.4%
SG&A Exp.	251	252	249	335	356	357	314	322	306	353
D&A Exp.	20	18	18	43	54	54	53	53	49	51
Operating Profit	72	64	68	33	58	72	64	84	84	139
Operating Margin	8.8%	7.9%	8.4%	3.3%	5.2%	6.3%	6.4%	7.7%	7.6%	11.1%
Net Profit	51	32	47	(6)	33	46	34	65	66	110
Net Margin	6.2%	4.0%	5.8%	-0.6%	3.0%	4.0%	3.4%	5.9%	6.1%	8.8%
Free Cash Flow	40	20	31	31	58	33	104	46	(54)	164
Income Tax	19	18	20	5	2	8	7	9	13	14

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	487	432	470	994	993	1,063	1,083	1,062	1,085	1,113
Cash & Equivalents	93	51	58	58	86	74	140	123	77	117
Accounts Receivable	147	136	145	203	208	217	200	211	252	248
Inventories	81	77	79	128	135	150	128	161	207	176
Goodwill & Int. Ass.	34	20	28	358	329	333	334	291	258	251
Total Liabilities	206	180	191	696	676	702	677	627	613	535
Accounts Payable	62	50	47	96	98	94	106	122	126	111
Long-Term Debt	28	25	36	377	355	339	308	268	300	200
Shareholder's Equity	281	252	279	297	314	360	405	434	471	577
LTD/E Ratio	0.10	0.10	0.13	1.27	1.13	0.94	0.76	0.62	0.64	0.35

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	10.7%	7.0%	10.3%	-0.8%	3.4%	4.5%	3.1%	6.1%	6.2%	10.0%
Return on Equity	18.6%	12.0%	17.6%	-2.1%	10.9%	13.5%	8.8%	15.4%	14.6%	20.8%
ROIC	16.8%	11.0%	15.8%	-1.3%	5.0%	6.7%	4.8%	9.2%	9.0%	14.1%
Shares Out.	18.4	17.7	17.7	17.9	18.3	18.6	18.6	18.8	18.7	18.9
Revenue/Share	43.86	43.90	44.98	56.69	61.26	61.65	53.72	57.87	58.42	66.21
FCF/Share	2.12	1.11	1.74	1.77	3.18	1.79	5.57	2.46	(2.91)	8.75

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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