Tennant

Equity Research Report

By: Aaron Foster, Noah Wilcox, Austin Kotlowski, Nathan Wick, Marshal Will



**Business Descriptions**

Tennant is a global Industrial floor scrubber company that was established in Minnesota in 1870. Tennant’s current vision is to be the leader in technology and innovation in the industrial floor scrubber market. Tennant’s future vision is to be a key leader in reducing environmental harm by creating eco-friendly products and technologies. Tennant is traded on the Russel 2000 and as of 12/11 a stock price of $79 under the ticker symbol TNC. Tennant has a market cap of $1.4 Billion. Over the past 5 years, Tennant has had organic growth of 4.5% but in 2017 they acquired 2 companies IPC and Gaomei for $300 million. Tennant has and EBIDTA of $120 million.

**Products**

Tennant has a variety of products such as floor scrubbers, sweepers, sweeper scrubbers, carpet extractors, burnish and floor machines, and vacuums. Their main bread and butter is floor scrubbers. Tennant’s latest floor scrubber is the T7-AMR Micro Floor Scrubber. What makes this floor scrubber unique is that it is the first and only floor scrubber in the market to have self-driving robotics. How this works is that it allows the user to program routes into the floor scrubber and when instructed the scrubber will do those routes. The scrubber also has sensors all around it to detect foreign objects and will go around those objects if needed. The scrubber also has ec-H2O which is a technology that Tennant developed to reduces the use of chemicals. How ec-H2O works is that it electrifies the water creating acidity in the water allowing the water to break down dirt particles. These technologies in the floor scrubber allow the company to use their employees more effectively by focusing on profit-generating tasks instead of cleaning floors, overall reducing labor inefficiencies. Just recently Walmart has invested in over 5,000 units of this floor scrubber showing that big companies believe in this technology.

**Competition**

In the floor scrubber industry, Tennant has the largest market share of its competitors at 20%. The other major competitors in the industrial floor scrubber industry are Nilfisk, Karcher, and Hako. Nilfisk is a larger company than Tennant but its primary focus is in vacuums. They hold 18% of the industry. Karcher is the next largest market share and also focuses mainly on vacuums. They have 12% of the market share. The last major firm is Hako with 9% of the market share and primarily focuses on power washers. The other 38% of the market is held by other firms that hold 3% of the market or less. Overall, it’s hard to gauge the industrial floor scrubber market because most of Tennant’s competitors don’t focus on floor scrubbers and are privately held companies, making it hard to compare their financial information.

**Acquisitions**

With the Tennant’s acquisitions of IPC and Gaomei, they see tremendous growth opportunities in the future of the company and gain in the market share. IPC is based in Europe and is a mid-tier machine that offers the reliability and service of Tennant. The other acquisition Gaomei is an organic, Chinese-based company that is a low to mid-tier machine. Tennant sees the developing Chinese market as the largest opportunity for growth and is estimated to be worth around $300 million. In China, they primarily use mop and bucket. If Tennant can become a dominant force in this market, they will see a huge boost in sales from Gaomei. With currently low use of industrial scrubbers currently in China, Tennant wanted a product that was less expensive but still a good product. This is where Gaomei comes in. They are inexpensive and reliable. This makes a switch to one of these machines easy and cost-effective for customers.

**Business Model**

When looking at Tennant’s business model, there are multiple things to consider. First, their biggest driver of revenue is their sales of commercial and industrial floor scrubbers and sweepers. This is where Tennant is going to get most of their income. They make sales based on being the highest-quality provider. They are the leader in the automated aspect of the industry as well. They also pride themselves as an industry leader in service. When help is needed with a machine, they want to offer quality service better than any of their competitors. This is a reason that they believe that their customers come back and buy new machines from them when they need a new one. And when servicing machines, they can sell parts and consumables. The sale of pre-owned equipment is also a way they can sell more machines, but it is also a way that Tennant can get their foot in the door to certain businesses. A business might not yet be able to afford a new machine, so they buy a pre-owned one. After they see the great service that Tennant provides, they may buy a new machine next time.

**Revenue Streams**

Looking at what drives sales, equipment is easily the highest. Tennant is an industrial firm and about two-thirds of revenue will come from them selling machines. They also get revenue from parts and consumables and service costs as well as a small amount from coatings. While these make up a smaller amount of revenue, they may be important in driving sales. Having good service and good parts to keep machines up and running will increase customer retention and keep customers coming back for more machines in the future. Breaking this down further into revenue streams, we see that the most revenue comes from the sales of high-quality Tennant cleaning machines. This is the biggest part of their business and generates the most sales. They have a large contract with Walmart and many other large buildings have these machines. They have even been spotted all around the Winona State University Campus. After the acquisition of IPC in 2017, Tennant gained its sales and gained a significant boost in revenue from it. IPC opens them up more to the mid-tier floor scrubber market. It also gives them a hold on the European market where IPC is based out of. Tennant also purchased Gaomei shortly after. This is their largest opportunity for growth. China’s current cleaning systems are based largely around mop and bucket. This means there are many companies that will upgrade to cleaning machines as the country develops more and more. These machines are lower-tier quality. This can be an advantage as most companies are not ready to get an expensive machine and are more likely to purchase a less expensive model. There could be complications involved with the current Chinese-American trade war, but since the company was originally Chinese and operates fully within China it shouldn’t cause many issues. There should not be any sending of equipment back and forth.

**Key Ratios**

When looking at Tennant’s financials/ratios, we chose six figures that we found to be most important.

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| **Financial​** | **Ratio​** |
| Debt to Equity​ | 1.06x​ |
| Price to Earnings​ | 33.82x​ |
| Return on Equity​ | 11.86%​ |
| Gross Margin​ | 39.67%​ |
| Revenue Growth Over Next 3 Years​ | 3%​ |
| Asset Turnover​ | 1.09​ |

Tennant has a good debt to equity ratio of 1.06. Debt-to-Equity measures the relationship between how much a company owes creditors (debt) to how much they have received from investors. A high DE ratio can indicate that a company may not be generating enough cash to pay off debt. A good DE ratio is between 1-1.5, so Tennant is in a good place since they fall in the lower end of that range. Their DE is more than 71% of their peers, which indicates they have been more aggressive when using debt to finance growth. Tennant’s P/E Ratio is a bit high, coming in at 33.82. The average P/E ratio of the Russell 2000 is 25.6. A high P/E could indicate that the stock is overvalued. Conversely, it also shows that investors are willing to pay a higher share price due to potential growth in the future. So whichever way you look at this determines how you react to a higher P/E. The ROE measures how effectively a company can use its assets to create a profit. The ROE is calculated by taking the earnings of the company and dividing it by the total common equity. The higher the ROE the more effective the company is using its assets to create profit, and a lower ROE the company is using its assets less effectively to generate profit. Tennant’s ROE, at 11.86%, is quite low compared to the industry average of 15.3%. Tennant’s gross margin is better than 74% of other companies in the Industrial Machinery and Equipment Industry. Along with that, their operating margin shows they manage their expenses 63% better than their peers. Finally, their EPS growth rate is greater than 93% of their peers.

**Dividends**

Looking at Tennant’s dividends, we see that they have continued to increase their annual dividend payments every year. While the annual data is shown, they pay their dividends quarterly. Currently, the annual dividend is $0.88/share and is paid quarterly. The dividend yield is at 1.12%, with a projected growth of 3.38% in the next five years.

**Revenue Forecasts**

Tennant is expected to continue to grow at an average rate of 3% over the next 3 years. Despite the recent acquisitions Tennant has had continued growth in revenue for all 4 quarters. Revenue forecasts into 2021 show a predicted annual revenue of about $1.25 billion dollars.

**SWOT Analysis of Tennant**

Tennant is a company that is experiencing changes in its corporate culture. The type of market Tennant is in is the type of market used for consistency. Another key trait that Tennant is focused on is sustainability for the environment. This includes their micro h2o cleaner. This cleaner doesn’t require any sort of detergent. Also, Tennant is expecting to generate further revenue with its recent acquisitions of IPC and Gaomei. This gives the company access to the European and Asia markets which allows them to have a way of selling their products in markets that previously may not have been available. One risk of this is that Tennant could potentially be mismatching the types of products for the types of customers in other countries. One weakness would be the high price of the machines with the robotic model being priced at about $50K. This can also be circumvented due to the ability to rent their cleaners if a customer is unsure about long term use.

**Recommendation**

Our final valuation of Tennant is that they should be valued at $82. Their stock price has been slightly below this recently, so we have a weak buy recommendation. Tennant has a good business model and they know to stick to their strengths. This serves them well and they are well-established for a small-cap stock. Our prediction is that Tennant will have steady growth that matches the economy. The market has Tennant’s stock currently valued well, but this could be a good addition for diversification purposes and the potential of IPC and Gaomei acquisitions to grow immensely in the future.