



# Sono-Tek: A True (But Unheralded) American Success Story

Feb. 21, 2021 7:37 PM ET | **Sono-Tek Corporation (SOTK)** | 5 Comments | 10 Likes



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## Summary

- Sono-Tek, the world leader in the design and manufacture of ultrasonic coating systems, has enjoyed huge sales growth from innovating their solutions to reach new markets.
- Revenue growth of 32% in 2020, gross profit margin of 47.6%, positive EPS since 2017, \$9 million cash on hand and a robust balance sheet make Sono-Tek a solid investment.
- A low P/S, high ROI, with only 15 million shares outstanding (55% held by institutions/insiders) presents explosive share price growth potential, especially if their NASDAQ listing application is successful.

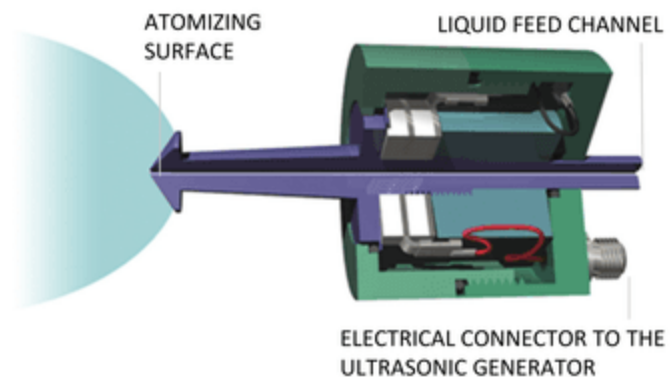
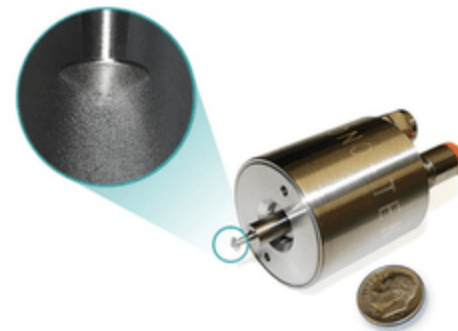
One of the primary strengths of the U.S. economy is the deep and rich entrepreneurial spirit of its people. Although this quality exists in other countries (Full Disclosure: I'm a proud Canadian), in America it seems there are scores of inventors and visionaries grinding hard to become the next Bill Gates or Steve Jobs. To be clear, the company featured in this article is not the next Microsoft or Apple, but Sono-Tek Corp.

(NASDAQ:[SOTK](#)) embodies the passion for innovation and tenacious drive that has helped U.S. firms dominate the business world for decades.

Sono-Tek is the world leader in the design and manufacture of custom-engineered ultrasonic coating systems. Their solutions apply precise, thin-film coatings to create filters, increase clarity, reduce reflection, enable conductivity, improve durability, and enhance safety on parts and components for the electronics, alternative energy, medical, industrial, and research & development markets.

Sono-Tek also provides smaller sub-systems that contain their patented technology for manufacturers to integrate into their own equipment. Their products have a reputation for high quality, providing consistent and reliable performance for critical applications in demanding, often 24/7, manufacturing environments. A [brief video](#) on Sono-Tek's website offers a basic overview of the company, while a collection of videos on their [YouTube Channel](#) provide a glimpse into how their various applications work.

*Ultrasonic nozzle systems use high frequency ultrasonic vibrations to atomize liquids into uniform micron-sized drops that can be applied to surfaces at low velocity to provide highly uniform microscopic layers of material over a wide variety of surfaces.*



Source: [Company Presentation](#)

Over the past few decades, Sono-Tek has been effectively transforming from providing discrete products in a narrow market to supplying comprehensive solutions for a diverse range of customers and industries. Let's dive into this compelling story.

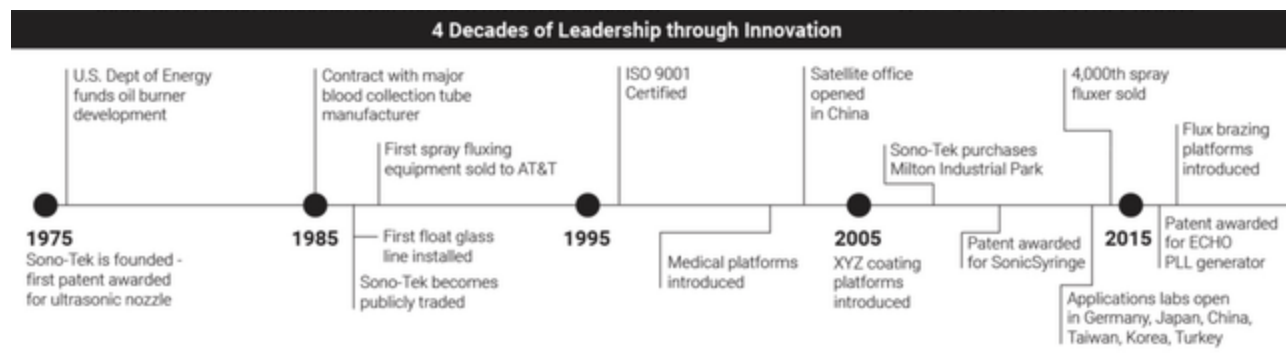
## The History

Sono-Tek was founded in 1975 by the inventor of the ultrasonic nozzle, the late [Harvey Berger](#), an accomplished physicist who wanted to create a more efficient fuel burner with an enhanced spray process to conserve oil in home heating during the U.S. energy crisis. That ultrasonic nozzle soon showed benefits in blood collection tube coating and printed circuit board fluxing applications. Current Chair and CEO Christopher Coccio, a Ph.D. and accomplished in his own right, has been at the helm for over 20-years, leading Sono-Tek through a very exciting journey.

Sono-Tek's headquarters and main production facilities (ISO 9001 qualified since 1998) are in Milton, New York but they are a geographically diverse company with around 75 full and part-time employees globally. They have a presence (directly and through factory-trained distributors and trade reps) in the U.S. and Canada, EMEA (Europe, Middle East, and Africa), APAC (Asia Pacific), and Latin America (including Mexico). Sono-Tek also has facilities in Singapore and an application process development lab in Guangzhou, China.

In addition, they have established testing labs at partner sites in China, Taiwan, Germany, Turkey, Korea, and Japan. These labs provide value demonstrating to prospective customers the capabilities of Sono-Tek products and enabling the development of custom solutions.

Let's look at some of the pivotal events in the company's evolution.

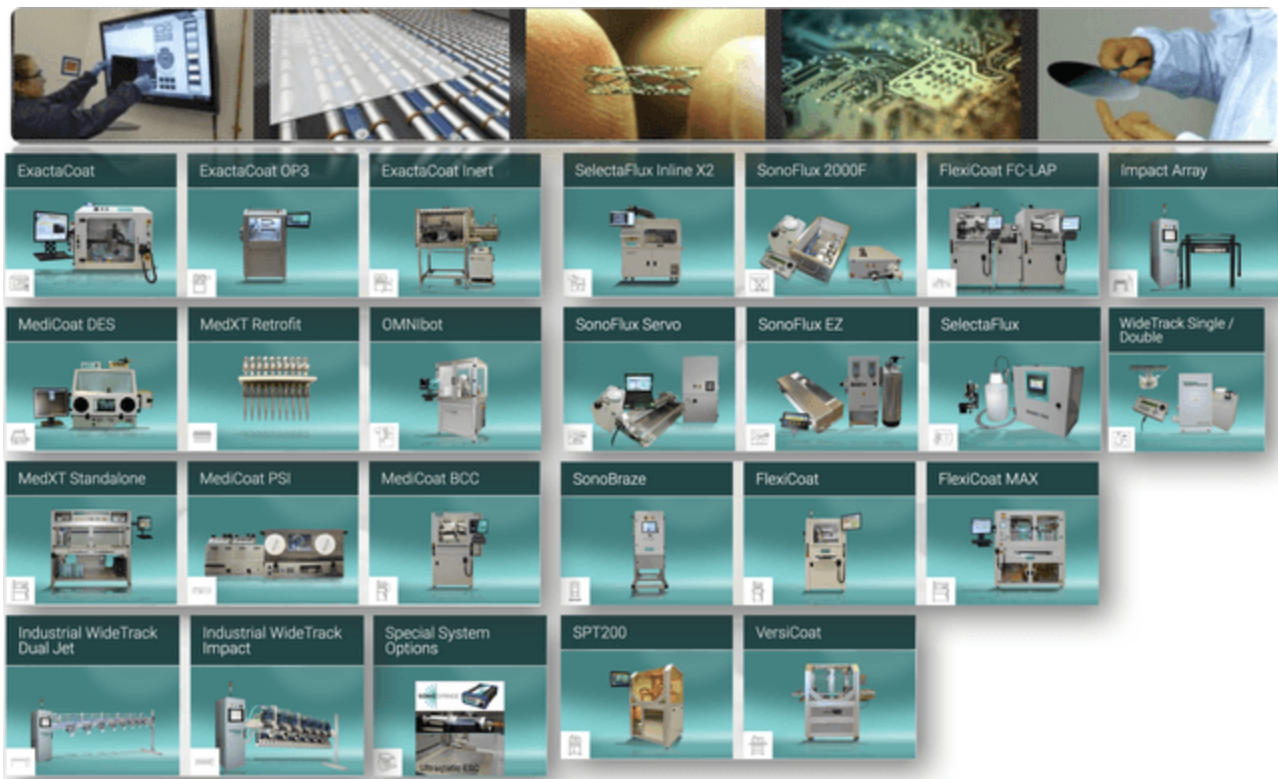


Source: [Company Website](#)

The early commercialization of Sono-Tek's technology was to coat the inner surface of blood collection tubes used for medical diagnostic testing but the applications have been expanding as the advantages of the unique ultrasonic coatings and expertise became more broadly recognized. This deliberate strategy of market diversification gained traction in 2007 when Sono-Tek introduced the MediCoat PSI, which incorporates their proven MicroMist ultrasonic atomizing nozzle for large vascular stents while offering similar cutting-edge precision as the well-established MediCoat DES systems (used for coating cardiac stents).

In 2008, Sono-Tek received a patent for the MediSonic process for coating 3D substrates using ultrasonic nozzle technology in combination with a vacuum system. Applications include coating of implantable medical devices such as drug-coated cardiac stents, and diabetes monitors, among others.

That same year, Sono-Tek sold the first ultrasonic WideTrack Textile Coater to replace a traditional finishing line at an industrial customer's facility. The platform, in use for years in glass line coating applications, applies several different finishes to fabric. These innovations demonstrated how Sono-Tek was expanding the market reach for their technology.



Source: [Company Website](#)

Sono-Tek began testing its technology for 'Fortune 500' global manufacturing clients in the Baked Goods Industry in 2008, using its lab in New York to develop new micro-scale coating processes for food products and packaging materials. The result was the release of The Universal Food Coater, which provides anti-microbial protection of baked goods, fresh produce, dairy, and meat products. The new solution provides customers with the capability to introduce new food products to the market safer and quicker with cost savings through more efficient spraying systems. In 2009, Sono-Tek sold its first Ultrasonic Food Coating system to Mesa Foods to replace a conventional spraying system at their baked goods facility in Louisville, KY.

Later in 2009, Sono-Tek released the SonicSyringe Ultrasonic Dispersion Syringe Pump, ideal for thin-film solar and fuel cell manufacturing. Sono-Tek then embarked on a strategic growth program with the goal of becoming the world leader of ultrasonic coating systems for alternative energy applications. Several new products were successfully introduced, including two systems for fuel cell manufacturing (FlexiCoat FC, ExactaCoat FC) and three for solar cell manufacturing (HyperSonic, ExactaCoat SC, SelectaFlux SC). Just 18 months into the program, the use of Sono-Tek products in high volume production with major advanced energy suppliers exceeded all the targets the company set for the program.

In 2012, Sono-Tek introduced a new addition to their line of precision implantable medical device coating systems with MediCoat BCC, a fully enclosed, programmable system designed to coat balloon mounted catheters for drug delivery during in vivo procedures such as angioplasty.

In 2014, Sono-Tek implemented LEAN Six Sigma Manufacturing practices to increase efficiency and reduce lead time in their operations. They also announced their first clean room-rated laboratory in China to meet the growing demand for high-quality medical devices in the region. The new site provided Sono-Tek's already very large customer base in China easy access to test next-generation stent and balloon coating machines, as well as the latest thin-film coating equipment. The next year, Sono-Tek added a Stratasys 3-D printer with production volume capability to improve manufacturing at their New York facilities; creating the flexibility to build and test prototypes and parts on-site, saving time and resources.

Sono-Tek had been supplying precision ultrasonic coating equipment to the semiconductor industry since the 1980s but in 2016 they realized new success for their technology. First, three new patents were awarded for Sono-Tek's flagship ECHO Multiband Ultrasonic Generator; a continuation for its unique SonicSyringe; and an ultrasonic spray process for applying coatings directly onto food products. Then Sono-Tek unveiled a new photoresist ultrasonic coating system, SPT200, designed specifically to meet the unique challenges of coating high aspect ratios and deep well topographies to replace traditional spin coating equipment.

Another innovation was announced in 2018 with a new coating technology, Ultrastatic Enhanced Spray Coating (“ESC”), jointly developed with SAMES KREMLIN of France, one of the world’s leading electrostatic coating manufacturers with over sixty years of experience. The Ultrastatic ESC system uses Sono-Tek’s ultrasonic atomization in combination with SAMES KREMLIN’S electrostatics, enhancing deposition and coating attributes. Sono-Tek received a first purchase order, opening up a new market of research labs and universities.

Along with racking up a steady increase in global customer orders for larger system purchases throughout 2019, the next year Sono-Tek announced a new ultrasonic coating system, the FlexiCoat EMI, an innovative solution to the dispensing of shielding materials for semiconductor packages. This marked a fresh direction in the market for new, smaller devices, including some of the tiny components that go into mobile phones and other emerging technology.

A welcome recent development in Sono-Tek’s evolution came in August 2020, when they announced an application to trade their common stock on the NASDAQ. If successful, this would mark a return to NASDAQ for Sono-Tek, which traded on that exchange for years after they went public in 1987. The stock then moved to the OTC Markets when the share price fell below NASDAQ’s requirements. Now the timing seems perfect to re-list with the share price, market capitalization, profitability, and other metrics strong again. Listing is subject to NASDAQ approval but Sono-Tek is optimistic that it can satisfy all the applicable requirements.

Finally, in February 2021, Sono-Tek [announced](#) the sale of its 300th ultrasonic coating system for manufacturing fuel cells and electrolyzers. This large platform helps customers produce a product that converts environmentally harmful CO2 emissions into a useable fuel source that can help reduce the global carbon footprint while creating a revenue stream from the byproduct. As Brian Booth, the Electronics and Advanced Energy Division Director at Sono-Tek, notes:

“The 300th sale milestone caps an exciting journey over the past 10+ years. During that time, we’ve witnessed the industry transform from mostly R&D systems to growing demand for the production of significantly more complex, high speed, customized solutions for both fuel cells and electrolyzers.”

Bennett Bruntl, Vice President of Sales and Marketing at Sono-Tek, added,



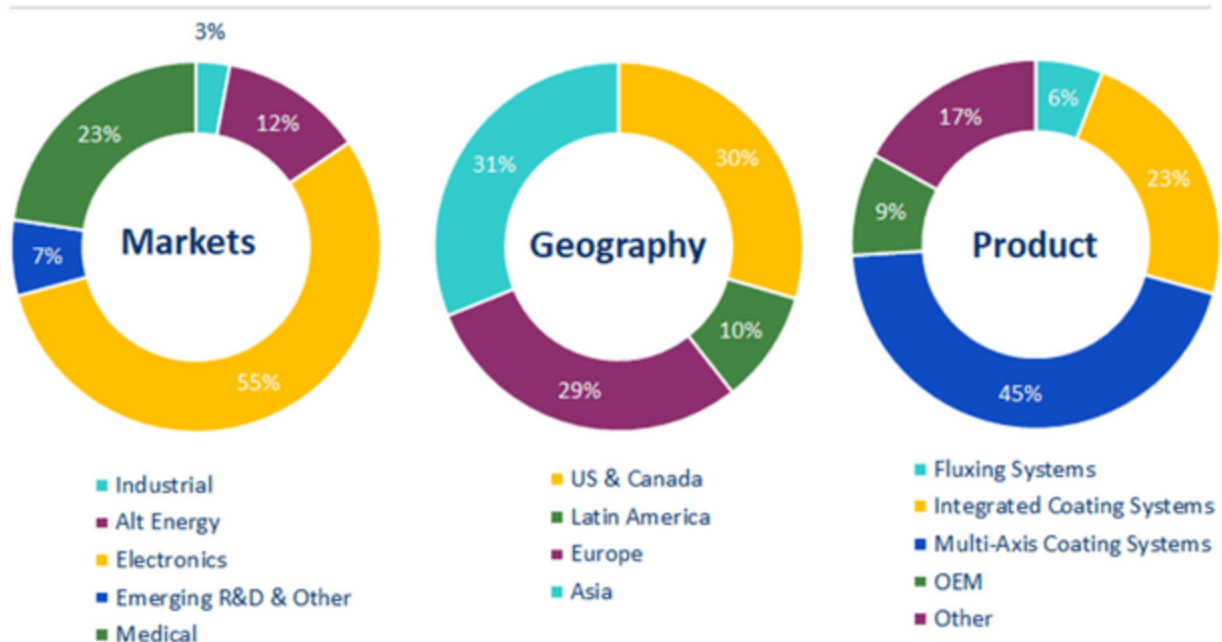
“Sono-Tek’s sales and innovation to the fuel cell/electrocatalyst industry have remained robust despite the impact of the global pandemic on many industries. We are proud to be part of the path that is developing a growing hydrogen infrastructure where renewable energy from solar and wind can be converted into hydrogen fuel. Since our coating technology is used in both the supply and consumption of hydrogen, we believe that we are part of the solution and positioned to make a significant impact on a cleaner energy future.”

Quite an impressive journey. Now let’s look at the company’s overall market opportunities.

## The Markets

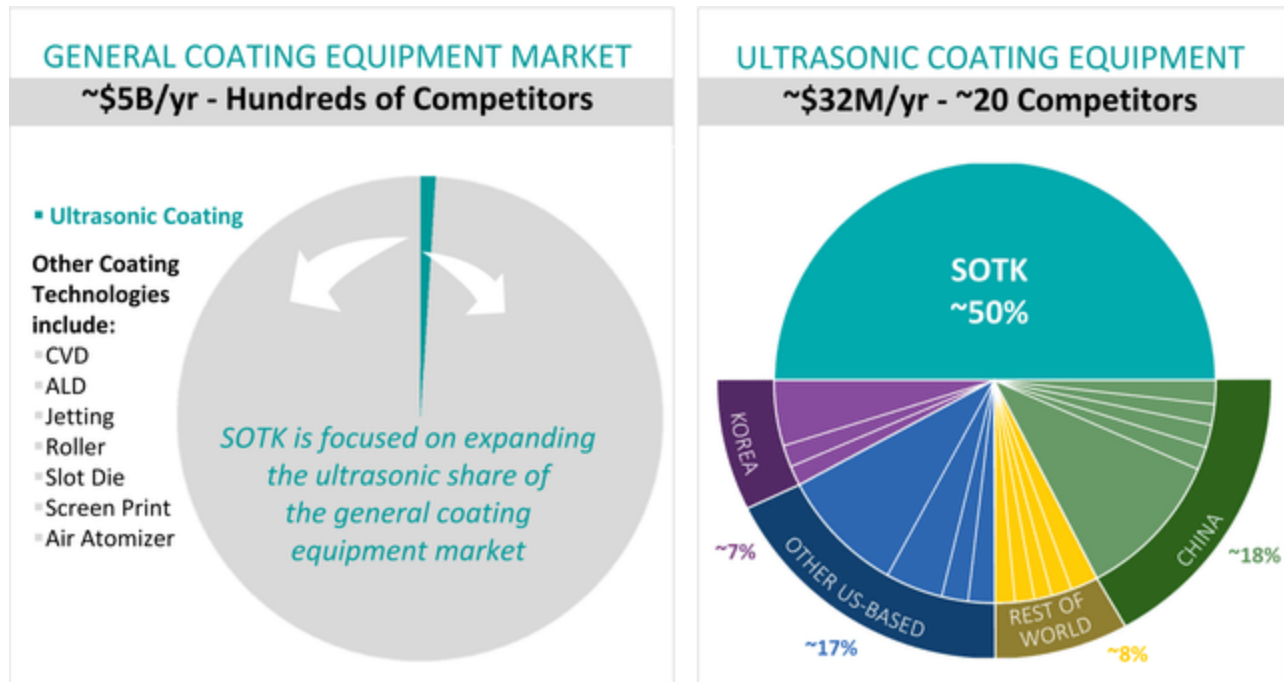
As we’ve seen, Sono-Tek operates in several diverse markets. They compete on price, quality, features, engineering, and support service against alternative coating technologies, as well as global/regional manufacturers of nozzles and other products. Sono-Tek has a broad base of clients with their largest accounting for only 12% of revenue in fiscal 2020, mitigating customer concentration risk. Geographical sales mix can vary year to year depending on the timing of orders but in 2020, 71% (or \$10.85 million) of sales originated outside the U.S. and Canada, up from 65% (\$7.56 million) in 2019.

### FY 2020 Sales \$15.3 million



Source: [Company Presentation](#)

The TAM reports available vary in terms of their projections but at least one expects the global Ultrasonic Coating Systems market to reach an estimated **US\$168 million by 2025**, growing at a CAGR of 9.5%, with North America considered the global leader. The industry is highly concentrated with Sono-Tek, USI, and MTI, the top three manufacturers, accounting for about 72% of all revenue. Sono-Tek believes their solutions can also compete for share in the much larger “**Global Coating Equipment Market**,” which is forecast to reach US\$24 Billion by 2027, growing at a CAGR of almost 5%. It is this broader and more lucrative market that is a very compelling opportunity for Sono-Tek and will be the subject of a future article.



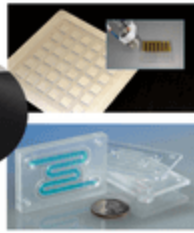
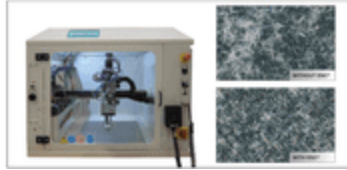
Source: [Company Presentation](#)

Over the last decade or more, Sono-Tek has shifted from primarily selling ultrasonic nozzles and components to a more complex business of providing complete solutions and higher value subsystems to original equipment manufacturers. This strategy has helped Sono-Tek enjoy significant growth in the average unit selling price; with larger machines often selling for over \$300K, and system prices reaching over \$1 million. As a result, they have broadened their addressable market to grow sales on a larger scale but this can also produce wide variations in both order flow and shipments from quarter to quarter.



## Introduction of New Products &amp; Applications Knowledge

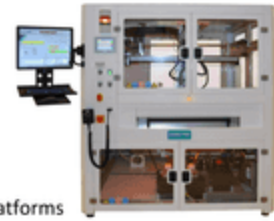
- Electrolyzers for fuel cells, CO2 reduction, hydrogen generation
- EMI Shielding
- Clear Laser Welding
  - For medical devices
- Electrostatics



*Sono-Tek systems enable functional coatings that are often not possible with other coating methods*

## Introduction of New Products to Enhance Capabilities

- Robotic coating platforms
  - Combines 6-axis robotic capabilities with ultrasonic dispensing expertise
  - First order shipped (Feb 2020), valued at \$1.6 million, is largest order in Sono-Tek's history
- Highly customized, multi-axis coating systems
  - \$100 - \$400k
- Complex multi-nozzle industrial platforms
  - \$200 - \$600k



*Fully automated, large format, customized coating solutions accelerate growth*

Source: [Company Presentation](#)

Sono-Tek is banking on its new products, markets, and regions as a strong foundation for future sales growth and enhanced profitability. They believe in the superiority of their products, attained through extensive experience leveraging innovative patented technologies, proprietary manufacturing expertise, unique talent, and global reach that enable better outcomes for customers' products and processes. Let's examine Sono-Tek's performance as measured by their financial data and other metrics.

## The Financials

Nothing warms the heart of a fundamental investor more than crisp, clear financial statements. Sono-Tek's are elegant in their simplicity and highlight the effectiveness of their growth strategy over the years (Note: Sono-Tek's fiscal year ends in February). Although the whole market was negatively impacted by the Covid-19 pandemic, Sono-Tek's numbers held up quite well:

Sono-Tek Corp. (SOTK)	FY2017	FY2018	FY2019	FY2020	Q1/21	Q2/21	Q3/21
Consolidated Statements of Operations - USD (\$)	Ended Feb.28/17	Ended Feb.28/18	Ended Feb.28/19	Ended Feb.28/20	Ended May 31/20	Ended Aug.31/20	Ended Nov.30/20
<b>Revenues:</b>							
Net Revenues	9,634,956	11,008,444	11,609,599	15,354,619	3,428,544	3,480,641	3,827,142
Cost of Goods Sold	(5,272,050)	(5,711,951)	(6,361,353)	(8,041,378)	(1,867,811)	(1,859,675)	(1,896,516)
Gross Profit	4,362,906	5,296,493	5,248,246	7,313,241	1,560,733	1,620,966	1,930,626
<b>Operating Expenses:</b>							
Research and Product Development Cost	1,275,902	1,280,308	1,324,766	1,427,543	411,424	423,516	406,799
Marketing and Selling Expense	2,217,218	2,516,461	2,686,382	3,403,133	706,717	682,270	765,969
General and administrative costs	1,048,407	1,118,107	1,154,611	1,367,073	258,402	313,852	311,130
Total operating expenses	4,541,527	4,914,876	5,165,759	6,197,749	1,376,543	1,419,638	1,483,898
<b>Operating Income (Loss)</b>	<b>(178,621)</b>	<b>381,617</b>	<b>82,487</b>	<b>1,115,492</b>	<b>184,190</b>	<b>201,328</b>	<b>446,728</b>
<b>Other income (expenses)</b>							
Interest expense	(52,294)	(46,117)	(39,977)	(33,038)	(8,417)	(9,287)	(6,245)
Interest & Dividend income	70,797	91,459	136,677	101,592	22,646	2,837	1,470
Realized gain on sale of marketable securities			73,699		-	-	-
Net unrealized loss on marketable securities			(100,184)		-	-	-
Other income	236,450	33,104	28,732	29,401	11,435	8,084	10,824
Total other income (expense)	254,953	78,446	98,947	97,955	25,664	1,634	6,049
Net income (loss) before income taxes	76,332	460,063	181,434	1,213,447	209,854	202,962	452,777
Income tax provision	(19,374)	(91,856)	(19,847)	(106,005)	(41,926)	(25,199)	(132,299)
<b>Net income (loss)</b>	<b>56,958</b>	<b>368,207</b>	<b>161,587</b>	<b>1,107,442</b>	<b>167,928</b>	<b>177,763</b>	<b>320,478</b>
<b>Net income per share:</b>							
Basic	\$0.01	\$0.02	\$0.01	\$0.07	\$0.01	\$0.01	\$0.02
Diluted	\$0.01	\$0.02	\$0.01	\$0.07	\$0.01	\$0.01	\$0.02
<b>Weighted average number of shares outstanding</b>							
Basic	14,961,076	14,968,450	15,107,778	15,302,367	15,397,779	15,424,126	15,440,673
Diluted	15,018,282	15,095,123	15,359,088	15,218,913	15,436,758	15,533,010	15,583,089

Source: Author's Research

The annual revenue growth of 32% from 2019 to 2020 also featured gross profit margin improvement to 47.6% (from 45.2%), fueled by large sales orders. Cash and equivalents were \$7.9 million, an increase of \$2.4 million from 2019. The year-end backlog in 2020 was \$3.5 million, up 16% from 2019, thanks to their ongoing strategy to expand product lines and markets.

Sono-Tek also sports a strong balance sheet, providing the company with the financial flexibility to pursue its growth strategy. To further that objective, during fiscal 2020 Sono-Tek spent \$1.4 million (9.3% of sales) on R&D for both existing and new products.

Balance Sheet (TTM)			
Total Cash	9.24M	Current Ratio	2.48
Total Cash Per Share	0.60	Quick Ratio	2.01
Total Debt	1.58M	Covered Ratio	48.39
Total Debt to Equity	15.11%	Book Value Per Share	0.67
Short Term Debt	-	Debt/Free Cash Flow	0.36
Long Term Debt	686,992.00	Long Term Debt/Total Capital	5.70%
Cash Flow Statement (TTM)			
Net Operating Cash Flow	2.94M	Free Cash Flow	1.92M

Source: Seeking Alpha

In January 2021, Sono-Tek [reported](#) Q3 sales of \$3.83 million, an increase of \$155K compared to Q3, 2020. They also grew their order book and improved gross margin to 50.5% (from 48.9% in Q3/2020) with Net Income of \$320K, a 14% increase over the previous Q3. The icing on the cake was the strong guidance provided by CEO and Chair Christopher Coccio:

“We expect that a significant portion of our \$4.55 million backlog will ship during the current FY ending February 28, 2021, assuming customer acceptance test schedules for some of the more complex and customized equipment orders. Therefore, based on this existing backlog, we expect that net sales will increase 5% to 10% for the 4<sup>th</sup> quarter versus the 3<sup>rd</sup> quarter of FY2021. Overall, it has been an unexpectedly successful year, considering all the impacts and uncertainties introduced into the global economy by the Covid-19 pandemic, which struck at the start of our Fiscal Year in March 2020. We are very appreciative of the excellent work done by our entire team as we shifted to virtual work wherever possible in order to limit Covid exposure.”

The future looks bright for Sono-Tek. Mr. Coccio reinforced this optimistic view in a recent business update for the [East Coast Microcap Virtual Summer Investor Summit](#) in June 2020. Now let's complete the picture with a review of some of the company's other business metrics.

## **The Business Fundamentals**

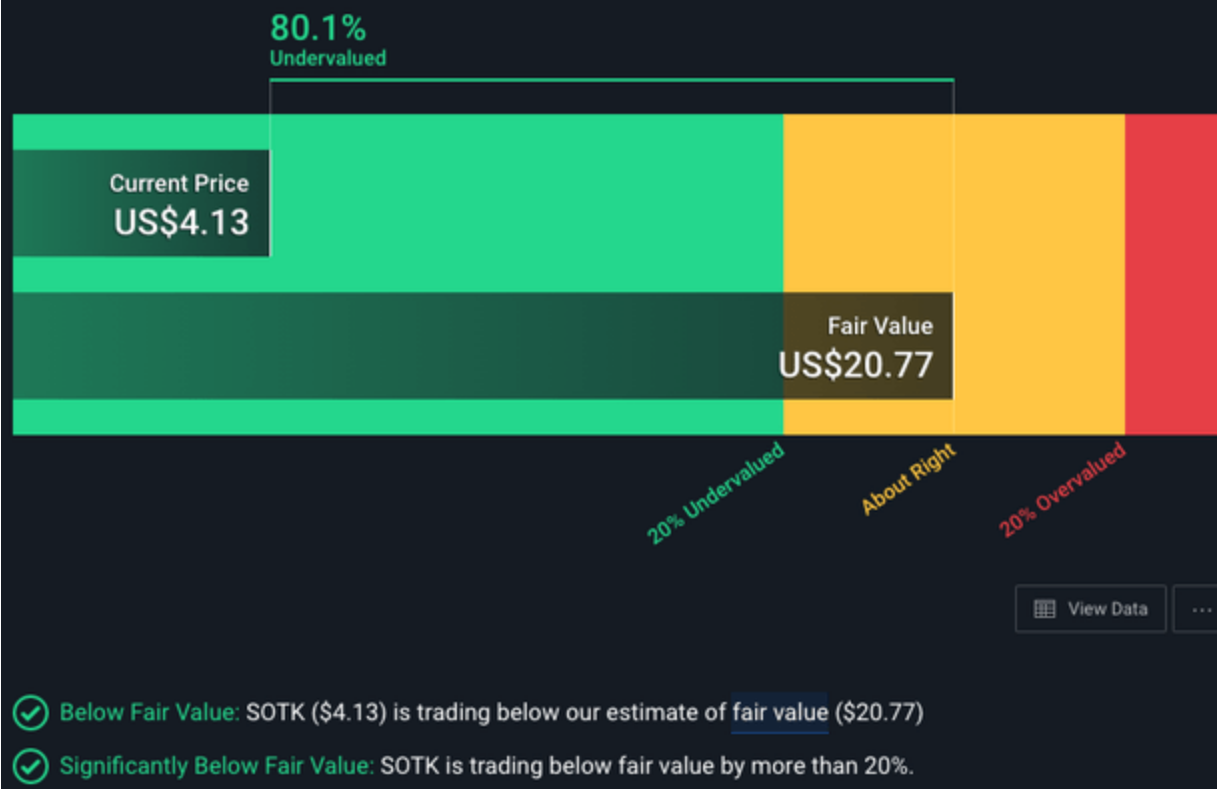
Sono-Tek has built a strong reputation based on its ability to solve complex problems with custom-engineered, value-added solutions. Management encourages critical thinking and enables a strong problem-solving culture across the company, supported by lean manufacturing processes, automation, and continuous improvement. This commitment to excellence shows through in their business fundamentals:

<b>FUNDAMENTAL ANALYSIS</b>	<b>Sono-Tek Corp.</b>	<b>Industrial Machinery &amp; Equip.</b>
	(to November/20)	(to November/20)
<b>PER SHARE DATA</b>		
Earnings (TTM)	\$0.09	\$4.33
Book Value	\$0.64	\$22.78
Cash Flow (TTM)	\$0.12	\$6.10
<b>VALUATION</b>		
Price/Earnings	47.4x	43.8x
Price/Sales (TTM)	3.9x	23.0x
Price/Book (MRQ)	6.1x	375.0x
Price/Cash Flow (TTM)	35.2x	40.0x
<b>PROFITABILITY</b>		
Gross Margin	47.86%	37.65%
Operating Margin	9.73%	10.43%
Profit Margin	8.33%	8.45%
<b>MANAGEMENT EFFECTIVENESS (TTM)</b>		
Return on Assets	8.83%	5.02%
Return on Equity	13.84%	18.28%
Return on Investment	12.65%	7.11%
<b>FINANCIAL STRENGTH (MRQ)</b>		
Debt to Capital	13.13%	34.92%
Current Ratio	2.5x	2.5x
Quick Ratio	2.0x	1.6x
<b>SIZE</b>		
Market Cap	\$64.1M	\$18.2B
Revenue	\$16.3M	\$4.8B
Shares Outstanding	15.5M	167.8M
Employees	68	17,647
Institutional / Insider Ownership	<b>55.7%</b>	
Revenue Growth	<b>27.2%</b>	

Source: Author's research

Simply Wall St., a financial technology startup that provides comprehensive investment research coverage, employs "[The Two-stage FCFE Model](#)" to provide the following valuation assessment on Sono-Tek:

### 3.1 | Share Price vs. Fair Value



Source: [Simply Wall St.](#)

Combine this assessment with the extremely low price-to-sales and price-to-book relative to the industry average, implies that the share price is currently undervalued. The strong ROA, ROE, and ROI are also enticing draws for fundamental investors. Add to that, the reasonable compensation structure for Sono-Tek's senior executives and Board of Directors, which includes equity ownership stakes, provides confidence that leadership is motivated to further the best interests of shareholders.

## 8.3 Leadership Team

Name	Position	Tenure	Compensation	Ownership
 Christopher Coccio	Chairman & CEO	19.83yrs	US\$252.50k	2.2% \$ 1.4m
 R. Harshbarger	President & Director	7.5yrs	US\$282.45k	1.76% \$ 1.1m
 Stephen Bagley	Chief Financial Officer	15.67yrs	US\$199.99k	0.33% \$ 211.8k
 Maria Kuha	Director of Operations	no data	no data	no data
 Bennett Bruntl	Vice President of Sales & Marketing	2.92yrs	no data	no data
 Robb Engle	Executive Vice President	no data	no data	no data
 Claudine Corda	Corporate Secretary	no data	no data	no data


Show less

**12.1yrs**

Average Tenure

**52yo**

Average Age

 **Experienced Management:** SOTK's management team is seasoned and experienced (12.1 years average tenure).

Source: [Simply Wall. St.](#)

The low number of shares outstanding, with over half locked up with insiders and institutions, provides a strong foundation for parabolic share price growth, especially if the company is successful listing on the NASDAQ. Now definitely seems like a good time for investors to load before that game-changing event is formalized or another major catalyst announced.

## Conclusion

As the research shows, Sono-Tek provides a broad offering of ultrasonic spray coating solutions that produce thinner, more precisely controlled coatings of greater uniformity in a wide range of applications. The business case for clients includes the cost and environmental benefits over traditional coating systems thanks to reduced overspray and a lowered amount of liquid material required. Sono-Tek also continues to invest heavily in R&D to introduce new solutions, increase market share, expand into new markets, and solve high-value problems in manufacturing to address an ever-changing marketplace for both them and their customers.



While shortages and supply chain issues have been increasing in many complex industries, all raw materials used in Sono-Tek products are provided by many different domestic and global suppliers; historically the company has not been adversely impacted by availability issues in their manufacturing. They also carefully manage inventory using lean processes.

The one suggestion I would make to management is to consider enhancing their social media strategy (they are not on Twitter currently) to help market themselves to investors. Sono-Tek is a truly admirable company whose story deserves to be told with greater effect and prominence.

There has been a lot of division, polarization, and unrest in the U.S. as of late. Hopefully, there is one thing everybody can agree on: if you want to make America great again or build back better, it starts with support for the unsung heroes of the economy like Sono-Tek, a company that always gets the job done with excellence and continues to innovate year after year. These are the types of small to medium-sized businesses that are the bedrock of every great economy.

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This article was written by



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