

Barnes Group Inc. (B)

\$63.36 (As of 01/09/20)

Price Target (6-12 Months): **\$67.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 04/23/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: C

Growth: C

Momentum: D

Summary

Barnes Group believes that strength in its OEM and aftermarket businesses, driven by solid demand for maintenance, repair and overhaul, and spare parts will boost revenues in the quarters ahead. The company also expects its business acquisitions to prove beneficial. For 2019, Barnes Group anticipates its Aerospace segment to grow in the low double-digits range. Its focus on rewarding shareholders handsomely through dividends and share repurchases will work in its favor. However, over the past year, the stock has underperformed the industry. Also, it is experiencing softness in the Industrial segment due to persistent weakness in the automotive end market. Rising cost of sales poses a concern for near-term margins. Also, rise in debt levels can increase its financial obligations. Further, adverse foreign exchange impact is a persistent concern.

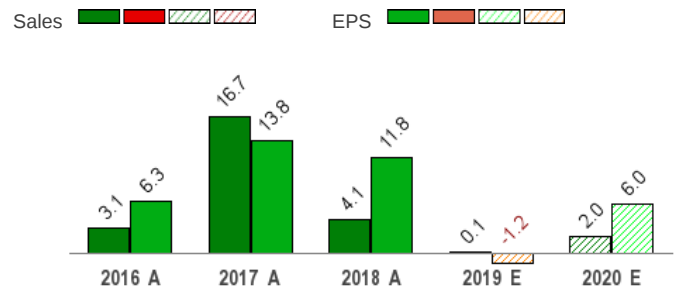
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$63.80 - \$42.39
20 Day Average Volume (sh)	145,685
Market Cap	\$3.2 B
YTD Price Change	2.3%
Beta	1.43
Dividend / Div Yld	\$0.64 / 1.0%
Industry	Manufacturing - General Industrial
Zacks Industry Rank	Bottom 28% (184 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	14.1%
Last Sales Surprise	-0.5%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	02/21/2020
Earnings ESP	0.0%
P/E TTM	19.9
P/E F1	18.8
PEG F1	2.7
P/S TTM	2.1

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	380 E	386 E	387 E	397 E	1,527 E
2019	377 A	372 A	373 A	376 E	1,497 E
2018	367 A	375 A	370 A	384 A	1,496 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.79 E	\$0.83 E	\$0.88 E	\$0.87 E	\$3.37 E
2019	\$0.71 A	\$0.75 A	\$0.89 A	\$0.84 E	\$3.18 E
2018	\$0.72 A	\$0.90 A	\$0.78 A	\$0.84 A	\$3.22 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/09/2020. The reports text is as of 01/10/2020.

Overview

Headquartered in Bristol, CT, Barnes Group Inc. is a global diversified manufacturer and provider of highly engineered products, innovative solutions and differentiated industrial technologies. At 2018-end, the company employed approximately 5,900 people globally.

The company's product and solution offerings include plastic injection molding technologies, robotic grippers, automation components, fine-blanked solutions, high-performance precision components and engineering solutions. It boasts a diverse range of market-leading brands like Associated Spring, Hänggi, Seeger Orbis and Associated Spring Raymond.

The above-mentioned products are mainly used in the aerospace, transportation, manufacturing, automation, healthcare and packaging markets.

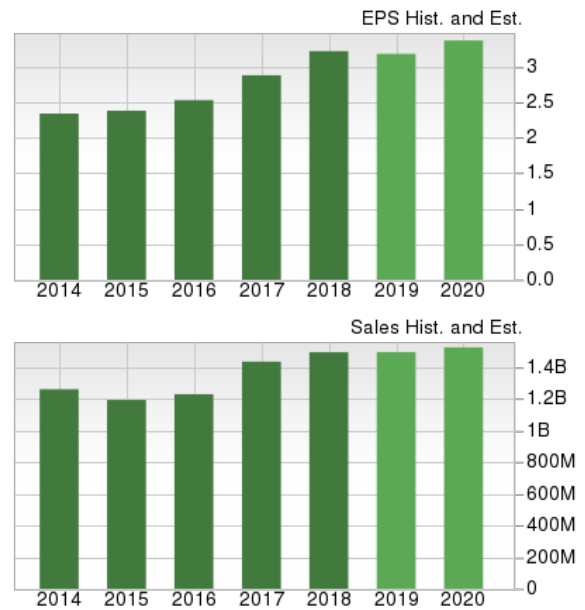
Barnes Group currently has two reportable segments:

Industrial (62.2% revenues came from this segment in third-quarter 2019): This segment offers highly-engineered, high-quality precision components, products and systems for critical applications. The segment has a strong customer base in end-markets like industrial equipment, transportation, automation, electronics, as well as medical devices.

The segment's Molding Solutions business is engaged in designing and manufacturing customized hot runner systems and precision mold assemblies for several complex injection molding applications. Its Force & Motion Control business offers cost-effective force and motion control solutions, which serve various metal forming and other industrial markets. The Automation business develops robotic grippers, sensors and automation components.

Aerospace (37.8%): This segment is engaged in manufacturing precision-machined and fabricated components and assemblies for original equipment manufacturer (OEM) turbine engine, industrial gas turbine and airframe builders globally. The Aerospace segment offers component overhaul and repair (MRO) services for several leading turbine engine manufacturers and commercial airlines.

In addition, it provides aftermarket and support and repair services for a broad range of aerospace products, including commercial, military and general aviation aircraft. Its aftermarket facilities are primarily based in Connecticut, Ohio, Singapore and Malaysia.



Reasons To Buy:

- ▲ Barnes Group's Aerospace segment is witnessing solid momentum across its end markets. For instance, in the third quarter of 2019, the segment performed exceedingly well owing to strong aerospace OEM sales and sustained strength in aerospace aftermarket business on account of solid demand for MRO and spare parts. Encouraged by strong program execution and a healthy backlog level at the OEM business, management expects OEM sales to grow in high single digits to low double digits in 2019, higher than high single digits guided previously. Also, in the aftermarket business, the company expects MRO sales to grow in low double-digits range compared with mid to high single-digits range predicted earlier. In addition, spare parts sales are anticipated to grow in low teen range, higher than high single digits expected previously. Notably, for 2019, the company expects the Aerospace segment to grow in low double-digits range compared with high single-digits range predicted earlier.
 - ▲ Barnes Group intends to become more competent on the back of meaningful business acquisitions. In this context, the buyouts of Industrial Gas Springs Group ("IGS") (completed in July 2018) and Gimatics (October 2018) are worth mentioning. Notably, IGS and Gimatics together contributed \$13.6 million or 6% to Industrial segment's revenues in third-quarter 2019. Gimatics' patented technologies and intellectual property-based solutions have been strengthening Barnes Group's portfolio of robotic technology solutions in the industrial automation market. Notably, acquisition had a positive contribution of 4% to the company's revenues in the third quarter. As a matter of fact, it expects acquisitions to contribute approximately 4% toward total revenues in 2019.
 - ▲ Barnes Group remains committed toward rewarding shareholders handsomely through pay out of dividends and share buyback programs. In 2018, the company returned more than \$170 million of cash to shareholders through dividend pay outs and share repurchase program. Notably, in the first nine months of 2019, the company paid out dividends worth \$24.4 million to shareholders and repurchased 900,000 of its shares for approximately \$50.3 million. In April 2019, the company's board of directors authorized the repurchase of up to 5 million shares of its common stock. Notably, exiting the third quarter, the company possessed authorization to repurchase 4.1 million common stock under its existing stock repurchase authorization program.
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Strength in Aerospace segment and acquisitions will likely strengthen Barnes Group's revenues in the quarters ahead.

Reasons To Sell:

- ▼ Barnes Group is experiencing softness in the Industrial segment. The segment's organic sales declined 8% in the third quarter on a year-over-year basis due to persistent softness in end markets particularly the automotive market on account of slowing global economies and trade uncertainties. As a matter of fact, the company expects the softness to persist and is likely to negatively impact its short cycle businesses like the molding solutions business and force and motion control business. Also, it is currently dealing with rising cost of sales. For instance, in the last five years (2014-2018), Barnes Group's cost of sales increased 3% year over year (CAGR). The metric recorded an increase of 0.8% in the first nine months of 2019, on a year-over-year basis. Also, the company's selling, general and administrative expenses increased 3.5% over the same time frame. We believe, if unchecked, higher costs and operating expenses will continue to impact its margins and profitability.
- ▼ Barnes Group's long-term debt in the last five years (2014-2018) increased 13.6% (CAGR). In the third quarter of 2019, long-term debt jumped 52.7% year over year to \$856.1 million. We believe that a highly leveraged balance sheet will inflate the company's financial obligations and hurt profit. Moreover, in the third quarter, its interest expenses rose 31.8% to \$5.3 million due to higher outstanding debt on account of the Gimatic buyout.
- ▼ Barnes Group's extensive geographic presence makes its business exposed to geopolitical risks and headwinds arising from unfavorable movements in foreign currencies. For instance, in both the second and third quarters of 2019, unfavorable foreign exchange movement had hurt the company's revenues by 2 percentage points. As a matter of fact, it expects that foreign exchange headwind will hurt revenues by 2 percentage point in 2019. Over the past year, Barnes Group's shares have gained 12.3%, compared with the industry's increase of 29.8%.

Rising cost of revenues, high debt level and foreign exchange headwind are major concerns for Barnes Group.

Last Earnings Report

Barnes Group Q3 Earnings Beat Estimates, Revenues Miss

Barnes Group reported mixed third-quarter 2019 results, wherein earnings beat the Zacks Consensus estimate, but revenues missed the same.

Earnings/ Revenues

Quarterly adjusted earnings came in at 89 cents per share, up 14.1% year over year from 78 cents. Moreover, the bottom line beat the Zacks Consensus Estimate of 78 cents.

Revenues were \$373 million, up 0.8% year over year. However, the figure declined 1% organically. Also, the top line missed the consensus estimate of \$374 million.

Segmental Breakup

Revenues from the **Industrial** segment were \$231.7 million, down 5% year over year. The decline was due to continued softness in end markets on account of trade uncertainties and slowing global economies as well as unfavorable impact of foreign currency translation.

The **Aerospace** segment generated revenues of \$140.9 million, up 12% year over year. The improvement was driven by solid aerospace OEM (Original Equipment Manufacturer) sales and strength in maintenance, repair and overhaul, and spare parts sales.

Costs/Margins

Cost of sales in the third quarter was \$234.4 million, down 1% year over year. Selling, general and administrative expenses were \$70.6 million, down from \$73.9 million. Adjusted operating margin was 18.1%, up 170 basis points.

Balance Sheet/Cash Flow

Exiting the third quarter, Barnes Group had cash and cash equivalents of \$80.5 million, down from \$100.7 million recorded as of Dec 31, 2018. At the end of the reported quarter, long-term debt was \$856.1 million compared with \$936.4 million as of Dec 31, 2018.

In the first nine months of 2019, cash from operating activities totaled \$161.3 million compared with about \$158 million in the comparable year-ago period.

Outlook

Barnes Group has provided adjusted earnings view for 2019 in the range of \$3.18-\$3.23 compared with \$3.18-\$3.28 guided earlier.

Total revenues are likely to be flat, while organic revenue growth is predicted to decline in low-single digits range. This is comparable with the company's earlier revenue growth guided range of 3-4%, and flat to up 1% for organic revenue growth.

Quarter Ending **09/2019**

Report Date	Oct 25, 2019
Sales Surprise	-0.47%
EPS Surprise	14.10%
Quarterly EPS	0.89
Annual EPS (TTM)	3.19

Recent News

Divestment of Seeger-Orbis Business

On **Dec 20, 2019**, Barnes Group announced that it has inked a deal with Kajo Neukirchen Group to divest its Seeger-Orbis business. Notably, the deal is subject to customary closing conditions and regulatory approvals, and is projected to close in the first quarter of 2020.

Dividend

On **Dec 10, 2019**, Barnes Group paid out a quarterly dividend of 16 cents per share to shareholders of record as of Nov 26, 2019.

Valuation

Barnes Group shares are up 12.3% over the trailing 12-month period. Over the past year, the Zacks sub-industry and the Zacks Industrial Products sector are up 29.8% and 17%, respectively.

The S&P 500 Index has moved up 24.4% in the past year.

The stock is currently trading at 18.8x forward 12-month earnings per share, which compares to 21.03x for the Zacks sub-industry, 18.1x for the Zacks sector and 18.81x for the S&P 500 index.

Over the past five years, the stock has traded as high as 23.85x and as low as 11.86x, with a 5-year median of 16.46x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$67 price target reflects 19.88x forward 12-month earnings per share.

The table below shows summary valuation data for B.

Valuation Multiples - B					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	18.8	21.03	18.1	18.81
	5-Year High	23.85	22.52	19.9	19.34
	5-Year Low	11.86	15.16	12.59	15.17
	5-Year Median	16.46	18.9	16.54	17.44
EV/EBITDA F12M	Current	11.26	12.73	17.8	12.66
	5-Year High	13	12.73	18.2	12.66
	5-Year Low	7.02	8.25	10.68	9.08
	5-Year Median	10.05	10.6	13.99	10.78
EV/Sales F12M	Current	2.6	2.76	3.14	3.26
	5-Year High	2.89	2.77	3.14	3.37
	5-Year Low	1.66	1.66	1.76	2.3
	5-Year Median	2.25	2.3	2.28	2.78

As of 01/09/2020

Industry Analysis Zacks Industry Rank: Bottom 28% (184 out of 254)



Top Peers

Donaldson Company, Inc. (DCI)	Neutral
Danaher Corporation (DHR)	Neutral
Emerson Electric Co. (EMR)	Neutral
Eaton Corporation, PLC (ETN)	Neutral
Honeywell International Inc. (HON)	Neutral
Parker-Hannifin Corporation (PH)	Neutral
Triumph Group, Inc. (TGI)	Neutral
United Technologies Corporation (UTX)	Neutral

Industry Comparison Industry: Manufacturing - General Industrial				Industry Peers		
	B Neutral	X Industry	S&P 500	DCI Neutral	DHR Neutral	PH Neutral
VGM Score	C	-	-	B	F	B
Market Cap	3.21 B	1.84 B	23.94 B	7.07 B	113.25 B	26.61 B
# of Analysts	4	4	13	6	9	9
Dividend Yield	1.01%	0.00%	1.78%	1.50%	0.43%	1.70%
Value Score	C	-	-	D	D	C
Cash/Price	0.03	0.05	0.04	0.03	0.13	0.15
EV/EBITDA	12.52	13.54	13.97	15.78	24.62	11.75
PEG Ratio	2.69	2.17	2.03	3.16	2.46	2.11
Price/Book (P/B)	2.65	2.49	3.33	7.69	3.58	4.36
Price/Cash Flow (P/CF)	12.31	12.91	13.73	19.31	24.49	13.30
P/E (F1)	18.86	18.61	18.79	24.76	28.60	19.27
Price/Sales (P/S)	2.13	1.40	2.64	2.51	5.54	1.88
Earnings Yield	5.32%	5.34%	5.32%	4.04%	3.49%	5.19%
Debt/Equity	0.71	0.57	0.72	0.71	0.52	1.21
Cash Flow (\$/share)	5.15	2.41	6.94	2.89	6.44	15.57
Growth Score	C	-	-	A	C	B
Hist. EPS Growth (3-5 yrs)	8.22%	5.37%	10.56%	8.85%	2.97%	14.43%
Proj. EPS Growth (F1/F0)	5.89%	7.63%	7.49%	2.11%	16.10%	-9.28%
Curr. Cash Flow Growth	6.84%	16.39%	14.83%	8.18%	10.54%	6.37%
Hist. Cash Flow Growth (3-5 yrs)	9.43%	7.16%	9.00%	2.27%	6.62%	7.55%
Current Ratio	2.23	2.04	1.23	2.18	3.43	1.96
Debt/Capital	41.42%	37.08%	42.99%	41.92%	33.25%	54.69%
Net Margin	10.38%	6.55%	11.08%	9.17%	12.13%	10.41%
Return on Equity	13.61%	13.61%	17.16%	30.87%	11.42%	25.74%
Sales/Assets	0.54	0.82	0.55	1.28	0.38	0.83
Proj. Sales Growth (F1/F0)	1.99%	1.94%	4.20%	-0.34%	14.48%	0.77%
Momentum Score	D	-	-	B	F	C
Daily Price Chg	0.78%	0.00%	0.53%	-0.46%	0.88%	0.24%
1 Week Price Chg	1.05%	0.00%	-0.30%	-0.96%	0.83%	-0.09%
4 Week Price Chg	1.33%	0.00%	1.92%	-2.22%	4.21%	-1.04%
12 Week Price Chg	20.82%	8.62%	6.54%	7.34%	14.44%	12.99%
52 Week Price Chg	12.36%	13.40%	22.58%	21.85%	49.65%	31.13%
20 Day Average Volume	145,685	51,501	1,580,816	352,977	15,525,323	723,726
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	-0.58%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	0.00%	-0.97%	0.70%
(F1) EPS Est 12 week change	0.00%	-1.18%	-0.50%	-0.88%	-3.30%	-8.66%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.00%	0.00%	-0.11%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	C
Growth Score	C
Momentum Score	D
VGM Score	C

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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