

Barnes Group Inc. (B)

\$40.51 (As of 08/10/20)

Price Target (6-12 Months): **\$43.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 07/20/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

5-Strong Sell

Zacks Style Scores:

VGM:B

Value: B

Growth: B

Momentum: D

Summary

Barnes Group's second-quarter earnings beat the Zacks Consensus Estimate by 35%. The company's focus on lowering its debt level, rewarding shareholders handsomely and inorganic activities (including acquisitions and divestments) will likely work in its favor in the quarters ahead. However, it has been witnessing softness in automotive, industrial and aerospace end markets on account of low order intakes mostly due to the coronavirus outbreak-related issues. Moving ahead, reduced aircraft utilization and lower aircraft demand are likely to hurt its Aerospace segment's prospects. On uncertainties related to the pandemic, it refrained from providing guidance for 2020. In the past three months, the company's shares have underperformed the industry. Also, its earnings estimates have been lowered for 2020 in the past 30 days.

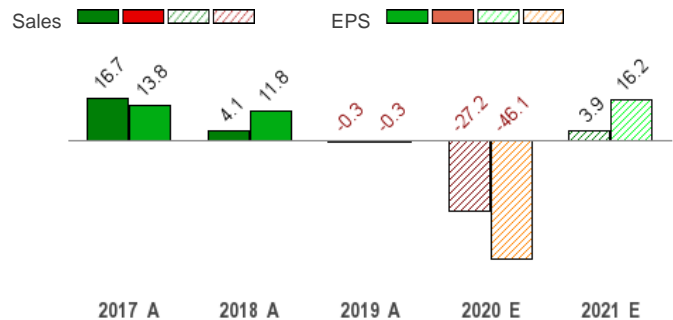
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$68.60 - \$30.22
20 Day Average Volume (sh)	193,818
Market Cap	\$2.0 B
YTD Price Change	-34.6%
Beta	1.09
Dividend / Div Yld	\$0.64 / 1.6%
Industry	Manufacturing - General Industrial
Zacks Industry Rank	Bottom 29% (180 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	35.0%
Last Sales Surprise	-3.0%
EPS F1 Est- 4 week change	-0.8%
Expected Report Date	10/23/2020
Earnings ESP	-18.6%
P/E TTM	14.8
P/E F1	23.4
PEG F1	3.4
P/S TTM	1.6

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	289 E	268 E	258 E	282 E	1,127 E
2020	331 A	236 A	246 E	273 E	1,085 E
2019	377 A	372 A	373 A	370 A	1,491 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.51 E	\$0.40 E	\$0.61 E	\$0.60 E	\$2.01 E
2020	\$0.71 A	\$0.27 A	\$0.33 E	\$0.40 E	\$1.73 E
2019	\$0.71 A	\$0.75 A	\$0.89 A	\$0.86 A	\$3.21 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 08/10/2020. The reports text is as of 08/11/2020.

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 2019-end, the company employed 5,749 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.

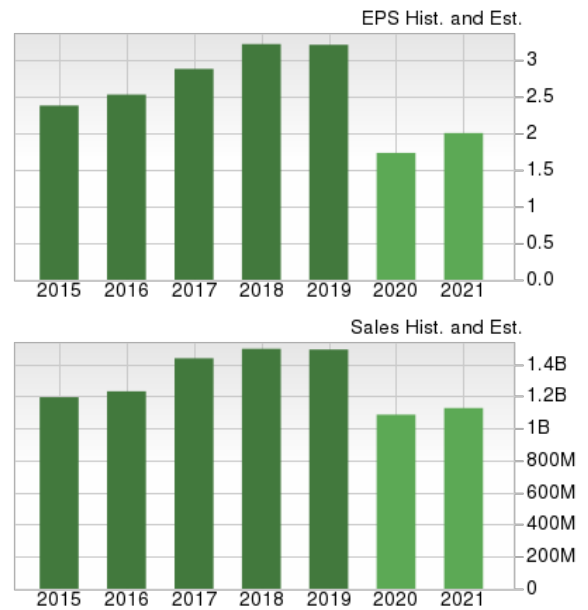
Barnes Group currently has two reportable segments:

Industrial (70.1% revenues came from this segment in second-quarter 2020): 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 (29.9%): 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 intends to become more competent on the back of business acquisitions and the divestiture of non-core businesses. In this context, the buyout of Gimatics (completed in October 2018) is worth mentioning. Gimatics' patented technologies and intellectual property-based solutions strengthened Barnes Group's portfolio of robotic technology solutions in the industrial automation market. In addition, in February 2020, the company divested its Seeger-Orbis business to Kajo Neukirchen Group.
- ▲ Barnes Group remains committed toward rewarding shareholders handsomely through dividend payouts and share buyback programs. In the first six months of 2020, the company returned \$31.7 million of cash to shareholders through dividend payouts and share buybacks. Notably, in the second quarter, it paid out dividends worth \$8.1 million to shareholders and refrained from buying back any shares. In April 2019, its board of directors authorized the repurchase of up to 5 million shares of its common stock. Exiting the second quarter, the company possessed the authorization to repurchase 3.7 million common stock under its existing stock repurchase authorization program. However, for the time being, it has suspended its share repurchase activity, owing to uncertain economic environment caused by the coronavirus outbreak.
- ▲ Barnes Group has lowered its debt level over the past year. At the end of 2019, the company's long-term debt declined 11.9% on a year-over-year basis. Further, the metric recorded a decline of 9.2% on a sequential basis in the second quarter of 2020. Moreover, the stock looks less leveraged than the industry. Its debt/capital ratio is currently pegged at 0.36, much lower than 0.48 of the industry. In addition, the company's ability to meet its debt obligations based on its current income is higher than that of its industry. Notably, the company's times interest earned ratio is 9.8, higher than the industry's 7.7.

Barnes Group's focus on lowering its debt level, shareholder-friendly policies and the Gimatics acquisition are likely to be beneficial in the quarters ahead.

Reasons To Sell:

- ▼ Barnes Group is experiencing persistent softness in its end markets. The Industrial segment's sales declined 29% in the second quarter on a year-over-year basis due to continued softness in automotive and industrial end markets on account of low order intakes, fuelled mostly by the coronavirus outbreak-related issues. In 2020, the company expects global automotive production to decline about 20% on a year-over-year basis. It expects the headwinds to persist in the quarters ahead and affect its Industrial segment's revenues. Also, the Aerospace segment's sales were down 49% year over year. It believes that reduced aircraft utilization and lower aircraft demand will continue to have an adverse impact on the Aerospace segment's aftermarket and OEM businesses. Notably, the company's organic sales are predicted to decrease about 30% year over year in the third quarter. Also, on uncertainties regarding the impacts of the outbreak on financial and operating results, the company has not provided its guidance for 2020. Notably, the duration of the coronavirus pandemic and the impacts of the governmental regulations imposed in response to the crisis will likely continue to have a bearing on Barnes Group's results.
- ▼ The company is currently dealing with rising cost of sales. For instance, in the last five years (2015-2019), Barnes Group's cost of sales increased 3.8% (CAGR). Also, over the same time frame, the company's selling, general and administrative expenses increased 5% (CAGR). At the end of the second quarter, its cost of sales, and selling, general and administrative expenses were recorded at \$147.1 million and \$78.4 million, respectively. We believe, if unchecked, higher costs and operating expenses will continue to impact its margins and profitability.
- ▼ Barnes Group's extensive geographic presence exposes its business to geopolitical risks and headwinds arising from unfavorable movements in foreign currencies. For instance, in both the first and second quarters of 2020, unfavorable foreign exchange movements hurt the company's revenues by 1 percentage point. In the past three months, Barnes Group's shares have gained 16.8% compared with the industry's growth of 25.9%. In the past 30 days, the company's earnings estimates have declined 4.9% for 2020 and 10.7% for 2021.

Softness across automotive and aerospace end markets on account of the coronavirus outbreak, and foreign exchange headwind are major concerns for Barnes Group.

Last Earnings Report

Barnes Q2 Earnings Surpass Estimates, Revenues Miss

Barnes Group reported mixed results for second-quarter 2020, wherein earnings surpassed estimates, while revenues lagged the same.

The company's adjusted earnings in the reported quarter were 27 cents per share. This surpassed the Zacks Consensus Estimate of 20 cents. However, the bottom line declined 64% on a year-over-year basis.

Quarter Ending **06/2020**

Report Date	Jul 28, 2020
Sales Surprise	-2.96%
EPS Surprise	35.00%
Quarterly EPS	0.27
Annual EPS (TTM)	2.73

Top-Line Results

In the reported quarter, Barnes' revenues decreased 37% year over year to \$235.5 million. While organic sales in the quarter declined 32% year over year, divestitures and forex woes had an adverse impact of 4% and 1%, respectively.

The company's revenues missed the Zacks Consensus Estimate of \$243 million.

Barnes reports net sales under two heads — Industrial and Aerospace. A brief snapshot of the segmental sales is provided below:

Net sales generated from Industrial amounted to \$165 million, declining 29% year over year. The segment suffered from weakness in automotive and industrial end markets, and the coronavirus outbreak-related issues. Organic sales were down 22% year over year, while forex woes had an adverse impact of 1%. Divestiture of the Seeger business had a negative impact of 6%.

Aerospace's sales were \$70.5 million in the second quarter, down 49% year over year. Original equipment manufacturing net sales declined 52%, while aftermarket net sales fell 42% on account of persistent softness in aerospace end markets.

Margin Profile

In the reported quarter, Barnes' cost of sales decreased 38.3% year over year to \$147.1 million. Notably, cost of sales represented 62.5% of net sales versus 64.1% in the year-ago quarter. Selling and administrative expenses increased 2.6% year over year to \$78.4 million, and represented 33.3% of net sales.

Adjusted operating income in the quarter declined 52% year over year to \$27.8 million, while margin contracted 390 basis points to 11.8%. Interest expenses totaled \$3.9 million in the reported quarter, down 27.8% year over year.

Balance Sheet & Cash Flow

Exiting the second quarter, Barnes' cash and cash equivalents were \$74.2 million, down 34.2% from \$112.8 million recorded in the last reported quarter. Long-term debt was \$711.4 million, reflecting a 9.2% decline from \$783.4 million in the last reported quarter.

In the first six months of 2020, it generated net cash of \$123.1 million from operating activities, up 13.8% from the comparable period of the previous year. Capital expenditure totaled \$19.8 million, decreasing 22% year over year. Free cash flow was \$103.3 million versus \$82.7 million reported a year ago.

During the quarter, Barnes paid out dividends amounting to \$8.1 million, in line with the year-ago quarter's disbursement. Notably, the company refrained from repurchasing any shares in the quarter.

Outlook

For the third quarter of 2020, the company anticipates adjusted earnings of \$0.22-\$0.32 per share, suggesting a decline of 69.7% at the mid-point from the year-ago reported figure.

Organic sales for the third quarter are predicted to decline about 30% on a year-over-year basis. Operating margin is predicted to be 10% in the quarter.

However, on uncertainties, regarding the impacts of the coronavirus outbreak on financial and operating results, the company has not provided its guidance for 2020.

Recent News

Dividend

On **Sep 10, 2020**, Barnes Group paid out a quarterly dividend of 16 cents per share to shareholders of record as of Aug 27, 2020.

Valuation

Barnes Group shares are down 34.6% and 9% in the year-to-date period and over the trailing 12-month period, respectively. Stocks in the Zacks sub-industry and the Zacks Industrial Products sector are down 5.2% and 3.6% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and the sector are up 9% and 12.2%, respectively.

The S&P 500 index has moved up 3.9% year to date, while increased 16.3% in the past year.

The stock is currently trading at 21.33x forward 12-month earnings per share, which compares to 27.11x for the Zacks sub-industry, 21.8x for the Zacks sector and 22.77x for the S&P 500 index.

Over the past five years, the stock has traded as high as 23.85x and as low as 10.13x, with a 5-year median of 17.41x. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$43 price target reflects 22.4x 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	21.33	27.11	21.8	22.77
	5-Year High	23.85	27.11	21.8	22.77
	5-Year Low	10.13	15.6	12.55	15.25
	5-Year Median	17.41	19.7	17.48	17.58
P/S F12M	Current	1.84	3.44	2.9	3.66
	5-Year High	2.67	3.44	2.9	3.66
	5-Year Low	1.14	1.58	1.52	2.53
	5-Year Median	1.86	2.25	2.04	3.05

As of 08/10/2020

Industry Analysis Zacks Industry Rank: Bottom 29% (180 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Danaher Corporation (DHR)	Outperform	2
Tennant Company (TNC)	Outperform	1
Donaldson Company, Inc. (DCI)	Neutral	3
Emerson Electric Co. (EMR)	Neutral	3
Eaton Corporation, PLC (ETN)	Neutral	3
Honeywell International Inc. (HON)	Neutral	3
ParkerHannifin Corporation (PH)	Neutral	3
Triumph Group, Inc. (TGI)	Neutral	4

Industry Comparison Industry: Manufacturing - General Industrial				Industry Peers		
	B	X Industry	S&P 500	DCI	DHR	PH
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Outperform	Neutral
Zacks Rank (Short Term)	5	-	-	3	2	3
VGM Score	B	-	-	B	C	A
Market Cap	2.05 B	1.30 B	23.56 B	6.56 B	143.34 B	26.22 B
# of Analysts	3	3	14	7	8	10
Dividend Yield	1.58%	0.00%	1.71%	1.62%	0.36%	1.72%
Value Score	B	-	-	B	D	B
Cash/Price	0.04	0.10	0.07	0.05	0.04	0.03
EV/EBITDA	8.22	13.12	13.39	14.74	35.50	14.04
PEG Ratio	3.55	3.30	2.92	2.74	3.20	1.71
Price/Book (P/B)	1.63	1.94	3.18	6.95	4.34	4.28
Price/Cash Flow (P/CF)	7.76	11.72	12.69	17.89	32.51	13.52
P/E (F1)	24.83	29.93	22.16	26.03	37.25	20.14
Price/Sales (P/S)	1.56	1.31	2.55	2.44	7.33	1.91
Earnings Yield	4.27%	3.03%	4.33%	3.84%	2.68%	4.96%
Debt/Equity	0.57	0.51	0.77	0.83	0.68	1.25
Cash Flow (\$/share)	5.22	2.49	6.94	2.89	6.21	15.12
Growth Score	B	-	-	A	C	A
Hist. EPS Growth (3-5 yrs)	6.98%	10.21%	10.41%	10.48%	2.68%	17.12%
Proj. EPS Growth (F1/F0)	-46.00%	-23.37%	-6.51%	3.34%	22.71%	-5.91%
Curr. Cash Flow Growth	0.20%	0.16%	5.26%	8.18%	1.84%	-2.94%
Hist. Cash Flow Growth (3-5 yrs)	4.53%	7.19%	8.55%	2.27%	5.87%	7.19%
Current Ratio	1.99	2.06	1.34	2.82	2.20	1.55
Debt/Capital	36.13%	34.34%	44.59%	45.63%	38.15%	55.53%
Net Margin	8.94%	4.34%	10.13%	9.32%	17.73%	8.81%
Return on Equity	11.24%	10.81%	14.59%	29.45%	11.88%	22.54%
Sales/Assets	0.49	0.76	0.51	1.19	0.30	0.68
Proj. Sales Growth (F1/F0)	-27.21%	-7.25%	-1.54%	0.65%	6.73%	-4.33%
Momentum Score	D	-	-	D	B	A
Daily Price Chg	2.35%	1.34%	0.91%	1.01%	-1.63%	3.48%
1 Week Price Chg	7.35%	4.95%	2.30%	6.02%	0.79%	10.44%
4 Week Price Chg	8.32%	10.36%	8.54%	13.78%	10.77%	16.18%
12 Week Price Chg	10.32%	20.62%	13.68%	14.03%	24.54%	23.82%
52 Week Price Chg	-8.97%	0.86%	3.71%	7.63%	45.95%	26.61%
20 Day Average Volume	193,818	59,993	2,015,804	418,245	2,421,022	916,587
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	10.46%
(F1) EPS Est 4 week change	-0.81%	2.82%	1.67%	0.00%	10.94%	11.06%
(F1) EPS Est 12 week change	-5.54%	3.13%	2.27%	4.99%	11.02%	13.63%
(Q1) EPS Est Mthly Chg	-13.82%	3.49%	0.67%	0.00%	7.54%	19.50%

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	B
Growth Score	B
Momentum Score	D
VGM Score	B

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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