

Barnes Group Inc. (B)

\$44.77 (As of 03/11/20)

Price Target (6-12 Months): **\$47.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 04/23/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:B

Value: C

Growth: B

Momentum: B

Summary

Barnes Group's fourth-quarter 2019 earnings surpassed the Zacks Consensus Estimate by 2.38%. The company believes that strength in its aftermarket businesses, driven by solid demand for maintenance, repair and overhaul, and spare parts will boost revenues in the quarters ahead. Its business acquisitions are also likely to prove beneficial. For 2020, Barnes Group anticipates its Aerospace segment to grow in low-to-mid single digit range. Its focus on rewarding shareholders handsomely through dividends and share repurchases will work in its favor. However, over the past year, its shares have underperformed the industry. Also, rising cost of sales remains a concern for near-term margins. Rise in debt levels can increase its financial obligations. Further, adverse foreign exchange impact is a persistent concern.

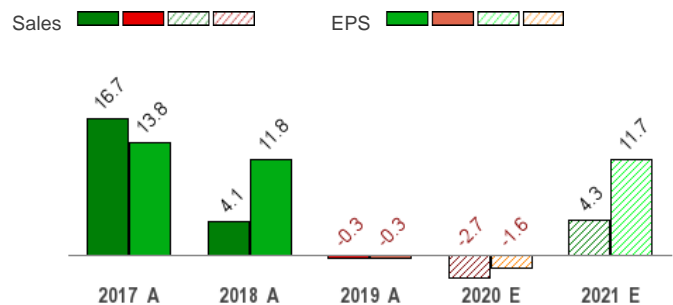
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$68.60 - \$39.41
20 Day Average Volume (sh)	225,454
Market Cap	\$2.3 B
YTD Price Change	-27.7%
Beta	1.39
Dividend / Div Yld	\$0.64 / 1.4%
Industry	Manufacturing - General Industrial
Zacks Industry Rank	Bottom 34% (167 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	2.4%
Last Sales Surprise	-1.5%
EPS F1 Est- 4 week change	-6.9%
Expected Report Date	04/24/2020
Earnings ESP	0.0%
P/E TTM	14.0
P/E F1	14.2
PEG F1	2.0
P/S TTM	1.5

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	357 E	371 E	380 E	394 E	1,513 E
2020	343 E	357 E	370 E	382 E	1,451 E
2019	377 A	372 A	373 A	370 A	1,491 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.79 E	\$0.86 E	\$0.92 E	\$0.93 E	\$3.53 E
2020	\$0.65 E	\$0.75 E	\$0.88 E	\$0.89 E	\$3.16 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 03/11/2020. The reports text is as of 03/12/2020.

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.

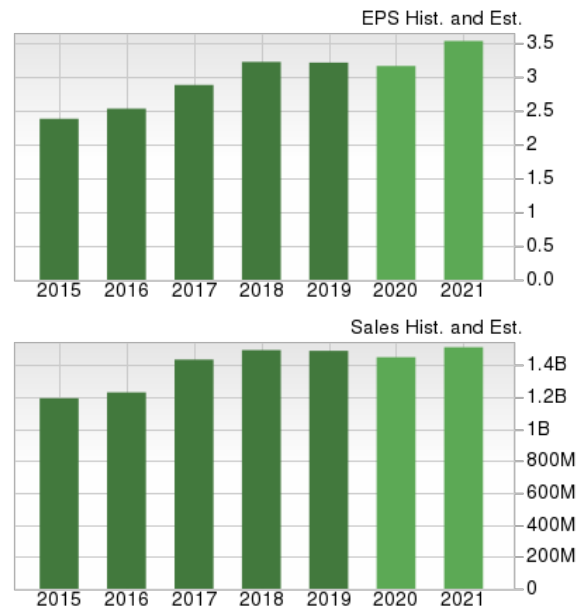
Barnes Group currently has two reportable segments:

Industrial (62.4% revenues came from this segment in fourth-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 (37.6%): 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 fourth quarter of 2019, the segment performed exceedingly well owing to growth in aerospace OEM sales and persistent strength in aerospace aftermarket business on account of solid demand for MRO and spare parts. Notably, the company's backlog level at the OEM business, stood at \$801 million at the end of 2019. In 2020, the company expects to ship about 50% of this backlog. Also, in the aftermarket business, it expects MRO and spare parts sales to grow in low-to-mid single digit range for 2020. Encouraged by solid traction across its Aerospace segment, the company expects the overall organic sales to grow in the range of 1-3% in 2020, compared with 2% decline recorded in 2019.
- ▲ 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, acquisitions contributed \$4.6 million or 2% to Industrial segment's revenues in fourth-quarter 2019. Gimatics' patented technologies and intellectual property-based solutions have strengthened Barnes Group's portfolio of robotic technology solutions in the industrial automation market. Also, in February 2020, the company divested its Seeger-Orbis business to Kajo Neukirchen Group. As a matter of fact, it expects a positive net impact of about 10 cents on its 2020 earnings per share from the divested business' forgone operating profit contribution.
- ▲ Barnes Group remains committed toward rewarding shareholders handsomely through pay out of dividends and share buyback programs. In 2019, the company returned approximately \$82.8 million of cash to shareholders through dividend payouts and share repurchase program. Notably, in 2019, the company paid out dividends worth \$32.5 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 fourth quarter, the company possessed authorization to repurchase 4.1 million common stock under its existing stock repurchase authorization program.

Strength in Aerospace segment and acquisitions will likely strengthen Barnes Group's revenues in the quarters ahead.

Reasons To Sell:

- ▼ Barnes Group is experiencing persistent softness in the Industrial segment. The segment's organic sales declined 10% in the fourth quarter on a year-over-year basis due to continued softness in end markets particularly the automotive market on account of slow 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 in the first quarter of 2020. Also, the company believes that 737 MAX-related issues will adversely impact its OEM business, with expected shipments on the platform to decline by about 50% in 2020, impacting revenues by \$20 million.
- ▼ Barnes Group 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). Further, in 2019, the company's interest expenses rose 22.6% to \$21 million on account of higher outstanding debt. We believe, if unchecked, higher costs and operating expenses will continue to impact its margins and profitability.
- ▼ 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 third and fourth quarters of 2019, unfavorable foreign exchange movement hurt the company's revenues by 2 and 1 percentage points, respectively. Over the past year, Barnes Group's shares have declined 20.5%, wider than the industry's decrease of 13.5%. In addition, analysts have become increasingly bearish about the company over the past 30 days. The company's earnings estimates for 2020 have decreased from \$3.39 to \$3.16, on account of four downward estimate revisions versus none upward.

Softness in the Industrial segment, 737 MAX-related issues, rising operating expenses and foreign exchange headwind are major concerns for Barnes Group.

Last Earnings Report

Barnes Earnings Surpass Estimates in Q4, Sales Miss

Barnes Group reported better-than-expected results for fourth-quarter 2019. Its earnings surpassed estimates by 8.9%. This was its third consecutive quarter of impressive results.

The company's adjusted earnings in the reported quarter were 86 cents per share. This surpassed the Zacks Consensus Estimate of 79 cents. Also, the bottom line increased 2.4% from the year-ago quarter figure of 84 cents, benefiting largely from improved operating results.

For 2019, the company's adjusted earnings were \$3.21 per share, within its guidance of \$3.18-\$3.23. However, the bottom-line results reflected a decline of 0.3% from the year-ago figure of \$3.22 and lagged the Zacks Consensus Estimate of \$3.38.

Quarter Ending **12/2019**

Report Date	Feb 21, 2020
Sales Surprise	-1.47%
EPS Surprise	2.38%
Quarterly EPS	0.86
Annual EPS (TTM)	3.21

Top-Line Results

In the reported quarter, Barnes' net sales decreased 3.6% year over year to \$370.2 million. Organic sales in the quarter declined 4% year over year and forex woes had an adverse impact of 1%. However, acquisitions contributed 1% to sales growth.

The company's revenues lagged the Zacks Consensus Estimate of \$374.5 million by 1.2%.

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

Revenues generated from **Industrial** amounted to \$230.9 million, declining 9.5% year over year. The segment suffered from trade uncertainties and weakness in industrial manufacturing across the globe. Organic sales were down 10% year over year, while forex woes had an adverse impact of 1%. Buyouts had a positive impact of 2%.

Aerospace's sales were \$139.3 million in the fourth quarter, up 7.9% from the last reported quarter. Aftermarket revenues were driven by growth in spare parts as well as maintenance, repair and overhaul sales. Meanwhile, new engine programs boosted aerospace original equipment manufacturing revenues.

For 2019, the company's net sales were \$1.49 billion, reflecting a marginal decline of 0.3% from the previous year. Also, the top line lagged the Zacks Consensus Estimate of \$1.51 billion.

Margin Profile

In the reported quarter, Barnes' cost of sales decreased 10% year over year to \$226.8 million. Notably, cost of sales represented 61.3% of net sales versus 65.6% in the year-ago quarter. Selling and administrative expenses increased 2.6% year over year to \$82.1 million, and represented 22.2% of net sales.

Adjusted operating income in the quarter increased 8.4% year over year to \$63.5 million, while margin expanded 190 basis points to 17.2%. Interest expenses totaled \$4.8 million in the reported quarter.

Balance Sheet & Cash Flow

Exiting the fourth quarter, Barnes' cash and cash equivalents were \$93.8 million, up 16.6% from \$80.5 million recorded in the last reported quarter. Long-term debt was \$825 million, reflecting a 3.6% decline from \$856.1 million in the last reported quarter. During 2019, the company repaid long-term debt of \$341.4 million.

In 2019, it generated net cash of \$248.3 million from operating activities, up 4.7% from the previous year. Capital expenditure totaled \$53.2 million, decreasing 7% year over year. Free cash flow was \$195 million versus \$179.9 million in 2018.

During the year, Barnes paid out dividends amounting to \$32.5 million, representing a 1% increase over the previous year's disbursement. Also, shares worth \$50.3 million were repurchased in the year.

Outlook

For 2020, Barnes anticipates adjusted earnings of \$3.12-\$3.32 per share, suggesting a decline of 3% to growth of 3% from 2019 adjusted figure.

Total revenues are predicted to decline modestly from the previous year. While organic sales are predicted to increase 1-3% in the year, divestment of the Seeger business will likely have an adverse impact of 4%. Forex impact will probably be neutral on sales.

Operating margin is predicted to be 16-17% in the year. Effective tax rate will likely be 24-24.5%, while capital expenditure will probably total \$60 million. The divestiture of the Seeger business will likely have an impact of 10 cents per share on earnings in 2020.

Recent News

Dividend

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

Divestment of Seeger-Orbis Business

On **Feb 5, 2020**, Barnes Group announced that it has completed the divestment of its Seeger-Orbis business to Kajo Neukirchen Group. The company expects a positive net impact of about 10 cents on its 2020 earnings per share from the divested business' forgone operating profit contribution.

Valuation

Barnes Group shares are down 27.7% and 19.9% 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 24.8% and 22.8% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and the sector are down 14.1% and 17.3%, respectively.

The S&P 500 Index has moved down 14.9% year to date and 3.5% in the past year.

The stock is currently trading at 13.85x forward 12-month earnings per share, which compares to 17.68x for the Zacks sub-industry, 14.42x for the Zacks sector and 15.85x 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 16.72x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$47 price target reflects 14.54x 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	13.85	17.68	14.42	15.85
	5-Year High	23.85	22.58	19.89	19.34
	5-Year Low	11.86	15.2	12.6	15.18
	5-Year Median	16.72	18.95	16.43	17.42
EV/EBITDA F12M	Current	10.16	11.74	15.58	12.34
	5-Year High	13	13.46	18.2	14.18
	5-Year Low	7.02	8.3	10.68	9.08
	5-Year Median	10.15	10.82	14.09	10.82
EV/Sales F12M	Current	2.35	2.51	2.8	3.04
	5-Year High	2.89	2.88	3.15	3.51
	5-Year Low	1.66	1.67	1.76	2.3
	5-Year Median	2.26	2.33	2.29	2.8

As of 03/11/2020

Industry Analysis Zacks Industry Rank: Bottom 34% (167 out of 253)



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)	Underperform
United Technologies Corporation (UTX)	Underperform

Industry Comparison Industry: Manufacturing - General Industrial				Industry Peers		
	B Neutral	X Industry	S&P 500	DCI Neutral	DHR Neutral	PH Neutral
VGM Score	B	-	-	C	D	B
Market Cap	2.28 B	1.19 B	19.20 B	5.60 B	97.03 B	18.95 B
# of Analysts	4	4	13	6	7	8
Dividend Yield	1.43%	0.00%	2.31%	1.90%	0.49%	2.38%
Value Score	C	-	-	D	D	B
Cash/Price	0.03	0.07	0.05	0.04	0.19	0.05
EV/EBITDA	9.21	9.86	11.76	12.68	21.77	10.16
PEG Ratio	1.78	1.79	1.73	2.66	2.29	1.41
Price/Book (P/B)	1.79	1.85	2.64	5.95	3.49	2.99
Price/Cash Flow (P/CF)	8.58	9.13	10.55	15.28	22.43	9.48
P/E (F1)	12.46	14.71	15.66	20.87	25.71	13.93
Price/Sales (P/S)	1.53	1.03	2.06	2.02	4.87	1.33
Earnings Yield	7.06%	6.62%	6.38%	4.80%	3.89%	7.18%
Debt/Equity	0.65	0.51	0.70	0.69	0.75	1.28
Cash Flow (\$/share)	5.22	2.24	7.01	2.89	6.21	15.57
Growth Score	B	-	-	B	C	C
Hist. EPS Growth (3-5 yrs)	8.25%	7.61%	10.85%	10.06%	2.72%	15.94%
Proj. EPS Growth (F1/F0)	-1.56%	4.15%	6.02%	-4.15%	22.66%	-10.55%
Curr. Cash Flow Growth	0.20%	4.08%	6.09%	8.18%	1.84%	6.37%
Hist. Cash Flow Growth (3-5 yrs)	4.53%	4.53%	8.52%	2.27%	5.87%	7.55%
Current Ratio	2.23	2.01	1.24	2.25	5.19	1.38
Debt/Capital	39.37%	33.99%	42.57%	41.12%	41.54%	56.21%
Net Margin	10.62%	6.24%	11.69%	9.47%	15.09%	9.63%
Return on Equity	13.47%	11.10%	16.74%	30.72%	11.50%	25.18%
Sales/Assets	0.54	0.77	0.54	1.25	0.35	0.77
Proj. Sales Growth (F1/F0)	-2.67%	0.00%	3.55%	-5.45%	6.78%	-0.03%
Momentum Score	B	-	-	F	D	C
Daily Price Chg	-11.45%	-4.62%	-5.37%	-4.43%	-3.42%	-7.75%
1 Week Price Chg	-0.86%	-1.94%	-0.67%	1.75%	2.66%	-10.71%
4 Week Price Chg	-32.38%	-23.15%	-20.57%	-17.29%	-14.93%	-30.97%
12 Week Price Chg	-27.93%	-20.90%	-17.57%	-22.29%	-7.09%	-28.51%
52 Week Price Chg	-19.94%	-17.85%	-8.21%	-9.48%	8.77%	-14.45%
20 Day Average Volume	225,454	59,655	2,882,511	619,605	3,317,203	1,475,865
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-6.13%	-0.48%	-0.09%
(F1) EPS Est 4 week change	-6.85%	0.00%	-0.23%	-6.13%	-0.48%	-0.09%
(F1) EPS Est 12 week change	-6.23%	-1.53%	-0.60%	-6.13%	-2.60%	-0.71%
(Q1) EPS Est Mthly Chg	-18.44%	-0.12%	-0.52%	-12.58%	-0.03%	-0.87%

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	B
Momentum Score	B
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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