

Barnes Group Inc. (B)

\$39.77 (As of 07/17/20)

Price Target (6-12 Months): **\$34.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 04/09/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:A

Value: B

Growth: A

Momentum: A

Summary

Barnes Group has been witnessing softness in automotive, tool & die, and packaging end markets on account of low order intakes mostly due to coronavirus-related issues. 737 MAX-related issues and lower aircraft demand are likely to leave an adverse impact on the Aerospace segment's OEM business. On uncertainties related to the impacts of the outbreak on financial and operating results, the company has withdrawn its guidance for 2020. Rising cost of sales is concerning for its near-term margins. Owing to an extensive geographic presence, its business is exposed to geopolitical risks and headwinds arising from unfavorable foreign exchange movements. Further, the company's earnings estimates have been lowered for 2020 and 2021 in the past 60 days. In the past three months, its shares have underperformed the industry.

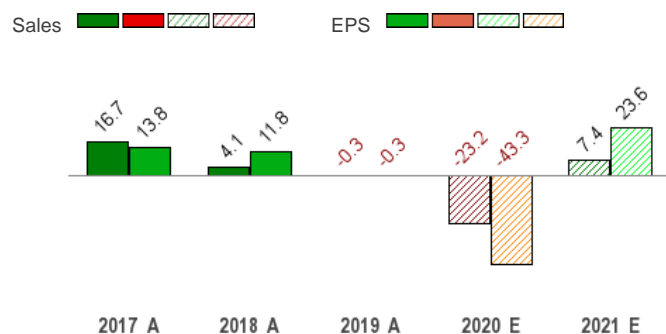
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$68.60 - \$30.22
20 Day Average Volume (sh)	235,254
Market Cap	\$2.0 B
YTD Price Change	-35.8%
Beta	1.14
Dividend / Div Yld	\$0.64 / 1.6%
Industry	Manufacturing - General Industrial
Zacks Industry Rank	Bottom 33% (167 out of 251)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	36.5%
Last Sales Surprise	0.1%
EPS F1 Est- 4 week change	4.0%
Expected Report Date	07/28/2020
Earnings ESP	-25.0%
P/E TTM	12.4
P/E F1	21.9
PEG F1	3.1
P/S TTM	1.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	328 E	273 E	301 E	309 E	1,230 E
2020	331 A	243 E	275 E	296 E	1,145 E
2019	377 A	372 A	373 A	370 A	1,491 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.59 E	\$0.38 E	\$0.61 E	\$0.60 E	\$2.25 E
2020	\$0.71 A	\$0.20 E	\$0.37 E	\$0.46 E	\$1.82 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 07/17/2020. The reports text is as of 07/20/2020.

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.

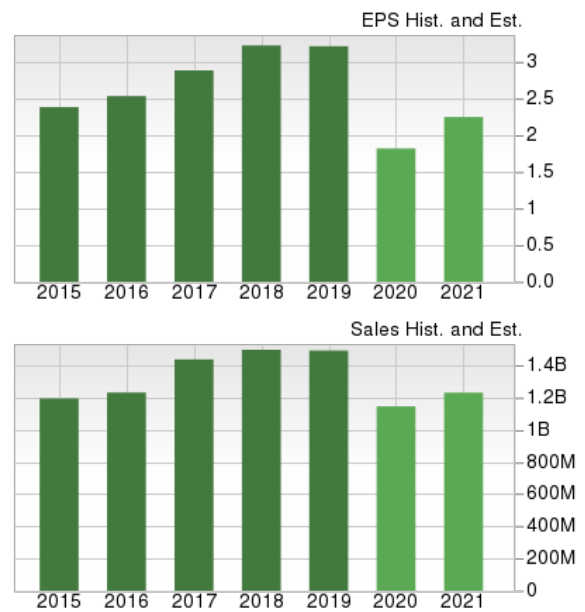
Barnes Group currently has two reportable segments:

Industrial (60.2% revenues came from this segment in first-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 (39.8%): 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 Sell:

- ▼ Barnes Group is experiencing persistent softness in the Industrial segment. The segment's organic sales declined 12% in the first quarter on a year-over-year basis due to continued softness in automotive, tool & die, and packaging end markets on account of low order intakes, fueled mostly by the coronavirus outbreak-related issues. Also, the company noted that several of its automotive manufacturing plants in most geographies have been suffering operational setbacks, owing to the coronavirus pandemic. It expects the headwinds to persist in the quarters ahead and affect its Industrial segment's revenues. Moreover, the company believes that 737 MAX-related issues and lower aircraft demand will have an adverse impact on the Aerospace segment's OEM business. Notably, organic sales are predicted to decrease about 30% year over year in the second quarter. Also, on uncertainties regarding the impacts of the outbreak on financial and operating results, the company has withdrawn its guidance for 2020. Notably, the duration of the coronavirus pandemic, its geographic spread and the impacts of the governmental regulations imposed in response to the crisis will likely have a bearing on Barnes Group's results.
- ▼ 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). At the end of the first quarter, its cost of sales and selling, general and administrative expenses were recorded at \$208.2 million and \$73.1 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 fourth-quarter 2019 and first-quarter 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 6.2% compared with the industry's growth of 25.1%. Also, analysts have become increasingly bearish about the company over the past 60 days. Its earnings estimates for 2020 have decreased from \$1.93 per share to \$1.82 on account of two downward estimate revision versus none upward. In addition, earnings estimates for 2021 have declined from \$2.32 to \$2.25 over the same time frame.

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

Risks

- 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 have 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 quarter of 2020, the company returned \$23.7 million of cash to shareholders through dividend payouts and share repurchase program. Notably, in the quarter, the company paid out dividends worth \$8.1 million to shareholders and repurchased 396,000 of its shares for \$15.6 million. In April 2019, its board of directors authorized the repurchase of up to 5 million shares of its common stock. Notably, exiting the first quarter, the company possessed authorization to repurchase 3.7 million common stock under its existing stock repurchase authorization program.
 - Barnes Group has successfully 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 5.1% on a sequential basis in the first quarter. Moreover, the stock looks less leveraged than the industry. Its debt/capital ratio is currently pegged at 0.39, much lower than 0.50 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 11.4, higher than the industry's 9.8.
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Last Earnings Report

Barnes Earnings and Revenues Surpass Estimates in Q1

Barnes Group reported better-than-expected results for first-quarter 2020, wherein both earnings and revenues surpassed estimates.

The company's adjusted earnings in the reported quarter were 71 cents per share. This surpassed the Zacks Consensus Estimate of 52 cents. Notably, the bottom line remained flat year over year.

Quarter Ending **03/2020**

Report Date	Apr 24, 2020
Sales Surprise	0.08%
EPS Surprise	36.54%
Quarterly EPS	0.71
Annual EPS (TTM)	3.21

Top-Line Results

In the reported quarter, Barnes' revenues decreased 12.2% year over year to \$330.7 million. While organic sales in the quarter declined 8% year over year, divestitures and forex woes had an adverse impact of 3% and 1%, respectively.

The company's revenues surpassed the Zacks Consensus Estimate of \$330 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 \$199.1 million, declining 18% year over year. The segment suffered from persistent weakness in certain end markets and the coronavirus outbreak-related issues. Organic sales were down 12% year over year, while forex woes had an adverse impact of 2%. Divestiture of the Seeger business had a negative impact of 4%.

Aerospace's sales were \$131.6 million in the first quarter, down 2% year over year. Original equipment manufacturing net sales declined 7% on account of the Boeing 737 Max-related issues. Meanwhile, aftermarket net sales grew 8%, driven by growth in spare parts as well as maintenance, repair and overhaul sales.

Margin Profile

In the reported quarter, Barnes' cost of sales decreased 14.9% year over year to \$208.2 million. Notably, cost of sales represented 63% of net sales versus 64.9% in the year-ago quarter. Selling and administrative expenses decreased 10.2% year over year to \$73.1 million, and represented 22.1% of net sales.

Adjusted operating income in the quarter declined 5% year over year to \$51.7 million, while margin expanded 110 basis points to 15.6%. Interest expenses totaled \$4.3 million in the reported quarter.

Balance Sheet & Cash Flow

Exiting the first quarter, Barnes' cash and cash equivalents were \$112.8 million, up 20.3% from \$93.8 million recorded in the last reported quarter. Long-term debt was \$783.4 million, reflecting a 5% decline from \$825 million in the last reported quarter.

In the first three months of 2020, it generated net cash of \$47.2 million from operating activities, down 11% from the comparable period of the previous year. Capital expenditure totaled \$11.9 million, decreasing 13.1% year over year. Free cash flow was \$35.3 million versus \$39.3 million reported a year ago.

During the quarter, Barnes paid out dividends amounting to \$8.1 million, representing a 1% decrease over the year-ago quarter's disbursement. Also, shares worth \$15.6 million were repurchased in the quarter.

Outlook

For the second quarter of 2020, Barnes anticipates adjusted earnings of \$0.20-\$0.30 per share, suggesting a decline of 66.7% at the mid-point from the year-ago reported figure.

Total net sales for the second quarter are predicted to decline modestly from the previous year. While organic sales are predicted to decrease about 30% in the year. Operating margin is predicted to be 8.5-10% in the year.

However, on uncertainties, regarding the impacts of the coronavirus outbreak on financial and operating results, the company has withdrawn its guidance for 2020.

Recent News

Dividend

On **Jul 17, 2020**, Barnes Group's board of directors approved payment of a quarterly dividend of 16 cents per share to shareholders of record as of Aug 27, 2020. The payment will be made on Sep 10.

Restructuring Actions

On **Jul 6, 2020**, Barnes Group provided an update related to its restructuring actions, considering the impacts of the coronavirus pandemic on its operational performance.

As communicated, the company will likely take a restructuring charge of about \$18 million mainly related to severance costs in the second quarter of 2020. It is worth noting here that Barnes Group expects the charge to have a minor impact on cash in the second quarter and an impact of around \$10 million on cash in the second half of this year. Notably, the company anticipates witnessing the remaining cash impact in the next year.

In addition, Barnes Group stated that its cost-reduction actions include the reduction of its global workforce by around 8%. Notably, reductions in the workforce will help it to generate around \$30 million of annualized cost savings, with savings realization likely to commence in the second half of this year.

Donation of Protective Masks

On **Apr 8, 2020**, Barnes Group announced that it donated around 6,000 protective masks to Connecticut's healthcare industry for the safety of its healthcare professionals.

Guidance Withdrawal

On **Apr 3, 2020**, Barnes Group announced the withdrawal of its earlier announced guidance for 2020 on end-market uncertainties due to the coronavirus pandemic.

On the fourth-quarter 2019 conference call held in February, Barnes Group had anticipated adjusted earnings of \$3.12-\$3.32 per share for 2020.

For the year, the company had expected organic sales growth of 1-3%, while operating margin was estimated to be 16-17%. Also, the company's capital expenditure was projected to be \$60 million.

However, on uncertainties regarding the impacts of the outbreak on financial and operating results, the company has now withdrawn its guidance for 2020.

Valuation

Barnes Group shares are down 35.8% and 24.1% 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 10.7% and 7.5% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and the sector are down 3.4% and up 1.7%, respectively.

The S&P 500 index has moved up 0.3% year to date, while increased 8.8% in the past year.

The stock is currently trading at 19.38x forward 12-month earnings per share, which compares to 26.99x for the Zacks sub-industry, 21.94x for the Zacks sector and 22.84x 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 17.27x. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$34 price target reflects 16.47x 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
	Current	19.38	26.99	21.94	22.84

P/E F12M	5-Year High	23.85	26.99	21.94	22.84
	5-Year Low	10.13	15.6	12.55	15.25
	5-Year Median	17.27	19.68	16.81	17.52
P/S F12M	Current	1.68	3.29	2.81	3.58
	5-Year High	2.67	3.29	2.81	3.58
	5-Year Low	1.14	1.58	1.52	2.53
	5-Year Median	1.86	2.25	2.01	3.02

As of 07/17/2020

Industry Analysis Zacks Industry Rank: Bottom 33% (167 out of 251)



Top Peers

Company (Ticker)	Rec	Rank
Donaldson Company, Inc. (DCI)	Neutral	3
Danaher Corporation (DHR)	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	3
Tennant Company (TNC)	Neutral	3

Industry Comparison Industry: Manufacturing - General Industrial				Industry Peers		
	B	X Industry	S&P 500	DCI	DHR	PH
Zacks Recommendation (Long Term)	Underperform	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	4	-	-	3	3	3
VGM Score	A	-	-	A	C	A
Market Cap	2.01 B	1.18 B	22.62 B	6.10 B	133.19 B	23.72 B
# of Analysts	3	3	14	7	8	10
Dividend Yield	1.61%	0.00%	1.82%	1.75%	0.38%	1.90%
Value Score	B	-	-	B	D	A
Cash/Price	0.06	0.10	0.07	0.06	0.03	0.04
EV/EBITDA	8.20	11.68	13.05	13.76	33.27	12.12
PEG Ratio	3.06	3.35	2.99	2.63	4.30	1.64
Price/Book (P/B)	1.61	2.04	3.13	6.45	4.52	3.76
Price/Cash Flow (P/CF)	7.62	9.80	12.20	16.62	30.73	11.88
P/E (F1)	21.42	28.69	22.02	24.99	39.06	19.29
Price/Sales (P/S)	1.39	1.18	2.34	2.27	6.86	1.67
Earnings Yield	4.58%	2.97%	4.28%	3.99%	2.56%	5.18%
Debt/Equity	0.63	0.51	0.75	0.83	0.77	1.28
Cash Flow (\$/share)	5.22	2.49	6.94	2.89	6.21	15.57
Growth Score	A	-	-	A	C	B
Hist. EPS Growth (3-5 yrs)	8.17%	11.57%	10.85%	10.48%	2.50%	17.20%
Proj. EPS Growth (F1/F0)	-43.40%	-32.01%	-9.37%	-12.93%	10.61%	-1.50%
Curr. Cash Flow Growth	0.20%	5.08%	5.51%	8.18%	1.84%	6.37%
Hist. Cash Flow Growth (3-5 yrs)	4.53%	5.59%	8.55%	2.27%	5.87%	7.55%
Current Ratio	2.15	2.17	1.30	2.82	1.32	1.49
Debt/Capital	38.62%	34.28%	44.33%	45.63%	42.26%	56.22%
Net Margin	10.66%	4.33%	10.59%	9.32%	16.85%	9.32%
Return on Equity	13.36%	10.81%	15.74%	29.45%	11.52%	24.30%
Sales/Assets	0.53	0.78	0.54	1.19	0.32	0.72
Proj. Sales Growth (F1/F0)	-23.22%	-9.38%	-2.44%	-9.47%	2.85%	0.07%
Momentum Score	A	-	-	B	A	A
Daily Price Chg	-0.13%	0.00%	0.36%	0.67%	1.13%	0.27%
1 Week Price Chg	-5.09%	-0.19%	-0.41%	-2.18%	2.22%	-4.14%
4 Week Price Chg	1.25%	1.97%	2.56%	6.99%	8.49%	-0.19%
12 Week Price Chg	5.86%	17.63%	15.49%	16.16%	18.86%	39.65%
52 Week Price Chg	-24.93%	-10.18%	-3.93%	-0.70%	33.53%	11.58%
20 Day Average Volume	235,254	91,537	2,236,294	578,875	2,236,294	1,119,508
(F1) EPS Est 1 week change	3.96%	0.00%	0.00%	0.00%	0.00%	-0.06%
(F1) EPS Est 4 week change	3.96%	0.00%	0.01%	0.40%	0.13%	2.14%
(F1) EPS Est 12 week change	-4.51%	-16.17%	-5.24%	-2.90%	-1.12%	4.00%
(Q1) EPS Est Mthly Chg	-1.75%	0.00%	0.00%	1.22%	0.00%	1.85%

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	A
Momentum Score	A
VGM Score	A

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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