

Regal Beloit (RBC)

\$85.80 (As of 06/04/20)

Price Target (6-12 Months): **\$90.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 02/06/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:A

Value: B

Growth: A

Momentum: B

Summary

In the past three months, Regal Beloit's shares have outperformed the industry. In the quarters ahead, the company is likely to benefit from business-restructuring initiatives, which will help to boost transparency, focus and accountability of its operations. Moreover, its robust liquidity position and shareholder-friendly policies add to its strength. However, the company withdrew its guidance for 2020 and temporarily suspended the share buyback activities on end-market uncertainties related to the coronavirus outbreak. A highly leveraged balance sheet can inflate its financial obligations and hurt profitability. In addition, given its extensive geographic presence, its financials are subject to forex-exchange headwinds. In the past 60 days, the company's earnings estimates have been lowered for 2020 and 2021.

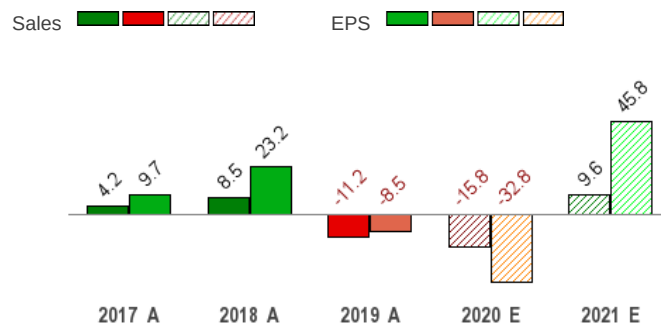
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$90.65 - \$51.99
20 Day Average Volume (sh)	218,812
Market Cap	\$3.5 B
YTD Price Change	0.2%
Beta	1.41
Dividend / Div Yld	\$1.20 / 1.4%
Industry	Manufacturing - Electronics
Zacks Industry Rank	Top 49% (123 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	27.2%
Last Sales Surprise	0.5%
EPS F1 Est- 4 week change	-8.6%
Expected Report Date	08/03/2020
Earnings ESP	14.6%
P/E TTM	15.8
P/E F1	23.3
PEG F1	2.3
P/S TTM	1.1

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	782 E	786 E	793 E	790 E	2,989 E
2020	734 A	629 E	668 E	694 E	2,726 E
2019	854 A	874 A	772 A	738 A	3,238 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.66 E	\$1.26 E	\$1.34 E	\$1.44 E	\$5.38 E
2020	\$1.31 A	\$0.53 E	\$0.91 E	\$1.08 E	\$3.69 E
2019	\$1.43 A	\$1.52 A	\$1.35 A	\$1.25 A	\$5.49 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 06/04/2020. The reports text is as of 06/05/2020.

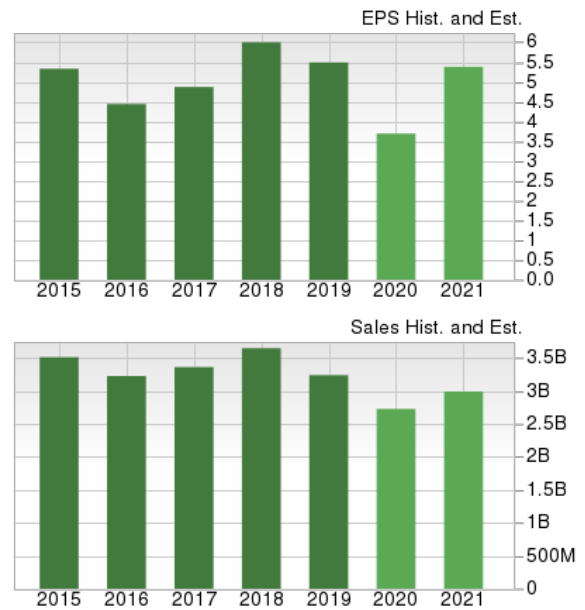
Overview

Headquartered in Beloit, WI, Regal Beloit Corporation is a leading manufacturer of electrical and mechanical motion control products. The company offers an array of electric motors, blowers, electric generators, transfer switches, gearboxes, power generation components and controls.

The company has manufacturing, sales and service facilities throughout the United States, Canada, Mexico, Europe, and Asia while it markets products to a diversified customer base across the globe — including OEMs, distributors and end users.

In December 2019, Regal Beloit restructured its business into four segments to improve transparency, focus and accountability. Currently, the company reports operations under these segments — Climate Solutions, Commercial Systems, Industrial Systems, and Power Transmission Solutions. Details on these segments are provided below:

- **Climate Solutions** (28.6% of revenues generated in first-quarter 2020): The segment designs and manufactures small motors and controls for heating, ventilation, air conditioning (HVAC) applications for residential and light commercial industry; water heaters; and commercial refrigeration.
- **Commercial Systems** (27.2%): The segment manufactures medium motors, commercial & industrial equipment and air moving solutions. Products are mainly used in water pumps, pool and spa, and commercial HVAC markets.
- **Industrial Systems** (17.6): The segment is engaged in manufacturing large motors, alternators, automatic transfer switches and switchgear solutions. These products are primarily used in general industrial equipment, agriculture, oil and gas, data center and power generation markets.
- **Power Transmission Solutions** (26.6%): The segment manufactures modular plastic belts, helical and worm gearing, belt and chain drives, mounted and unmounted bearings, conveying chains, couplings, hydraulic pump drives and other products. These products are mainly used in special machinery, beverage, energy, aerospace, bulk handling, metals and general industrial markets.



Reasons To Buy:

- ▲ In the past three months, Regal Beloit's shares have increased 12.8% compared with the industry's growth of 0.5%. The company's management implemented a radical change in the organizational structure by decentralizing operations in order to simplify decision making, improve speed of execution, boost operational efficiency and financial performance, and better position the company for talent development. Also, its business reorganization move (December 2019) will likely improve transparency, focus and accountability, particularly for its Commercial Systems and Industrial Systems segments. Its simplification and footprint consolidation program will likely provide additional value creation opportunities. Notably, the company believes that it is on track with its planned restructuring actions despite the outbreak of coronavirus. In the first quarter of 2020, the company realized about \$4 million of restructuring-related cost savings. Notably, for 2020, Regal Beloit anticipates annual savings of more than \$38 million from the restructuring actions.
- ▲ Regal Beloit's robust liquidity position adds to its strength. In the last three years (2017-2019), the company's cash flow from operations increased 11.9% (CAGR). Notably, in the first quarter of 2020, its cash flow from operations increased to \$102.7 million from \$18.3 million in the year-ago quarter. Also its cash and cash equivalents were up 82.4%, on a sequential basis. As a matter of fact, the company's healthy liquidity position might help it tide over the difficult operating conditions caused by the pandemic. In the quarters ahead, it will likely benefit from its cost-control measures that are implemented to deal with the pandemic. The actions include furloughs, lowering of discretionary spending, reduction in compensation and hiring freeze.
- ▲ Regal Beloit remains committed toward rewarding shareholders handsomely through dividend payments and share buybacks. In the first quarter of 2020, the company repurchased shares worth \$25 million. Also, dividend payments amounted to \$12.2 million in the quarter. The quarterly dividend rate currently stands at 30 cents per share (hike of 7% was announced in April 2019). It is worth mentioning here that Regal Beloit approved a \$250-million share buyback program in October 2019. It noted that the new authorization replaces the earlier programs. The company recently noted that there is no change to its dividend plans, while share buyback activities have been temporarily halted due to the pandemic.

Business restructuring and simplification initiatives are likely to drive Regal Beloit. Also, it has a policy of rewarding shareholders handsomely.

Reasons To Sell:

- ▼ In first-quarter 2020, Regal Beloit's bottom line declined 6.4% year over year on weak sales performance and lower margins. Sales decreased 14% on a year-over-year basis, with organic sales declining 9.8% due to weakness in Climate Solutions, Commercial Systems, Industrial Systems, and Power Transmission Solutions segments. Low order rates in the HVAC business amid the coronavirus-led market downturn to adversely impact sales for the Climate Solutions in the quarters ahead. Persistent weakness in the pool pump business is likely to act as headwinds for the Commercial Systems segment. Coronavirus-led low demand environment in the power generation and core industrial end-markets remain concerns for the company's Industrial Systems segment. Slowdown in both upstream and midstream oil and gas end markets coupled with weakness in metals and general industrial end markets in China and in the United States is likely to affect the Power Transmission Solutions segment. For 2020, the company expects revenues to decline significantly in the second quarter.
- ▼ Regal Beloit had a highly leveraged balance sheet. In the last three years (2017-2019), the company's long-term debt jumped 3% (CAGR). The metric increased 20% on a sequential basis to \$1,364.3 million at the end of the first quarter of 2020. Net interest expenses in the quarter were \$11.6 million. Also, we find the company more leveraged than the industry, as its long-term debt to capital is 38.1%, higher than the industry's 31.2%. We believe that further issuances of long-term debts will make the company more leveraged and can inflate its financial obligations, hurting profitability. Also, international businesses exposed Regal Beloit to risks arising from unfavorable movements in foreign currencies and geopolitical issues. In both the fourth quarter of 2019 and the first quarter of 2020, negative foreign exchange impact lowered sales by 0.7%. Persistence of forex woes might be concerning.
- ▼ Regal Beloit believes in making acquisitions to expand businesses, which, in turn, consumes significant resources and exposes it to integration risks. Divestments are done in the best interest of shareholders. However, business divestment may hurt near-term results. For instance, the divested businesses adversely impacted the company's fourth-quarter 2019 and first-quarter 2020 sales by 6.5% and 3.5%, respectively. In addition, analysts have become increasingly bearish about Regal Beloit over the past 60 days. The company's earnings estimates have been decreased by 25% to \$3.69 for 2020 and lowered by 15.1% to \$5.38 for 2021.

Weak organic sales prospects, a highly leveraged balance sheet and exposure to forex woes headwinds might hurt Regal Beloit's performance in the quarters ahead.

Last Earnings Report

Regal Beloit Beats Q1 Earnings Estimates, Withdraws View

Regal Beloit delivered better-than-expected results for the first quarter of 2020, with earnings surpassing estimates by 27.2%. This is the company's third consecutive quarter of impressive results.

Adjusted earnings in the reported quarter were \$1.31 per share, surpassing the Zacks Consensus Estimate of \$1.03. However, the bottom line declined 6.4% from the year-ago quarter's figure of \$1.40 on weak sales performance and a fall in operating margins.

Quarter Ending **03/2020**

Report Date	May 04, 2020
Sales Surprise	0.52%
EPS Surprise	27.18%
Quarterly EPS	1.31
Annual EPS (TTM)	5.43

Revenue Details

In the reported quarter, Regal Beloit's net sales were \$734.2 million, declining 14% year over year. Organic sales in the quarter fell 9.8%, while forex woes and divestments had adverse impacts of 0.7% and 3.5%, respectively.

However, the top line surpassed the Zacks Consensus Estimate of \$730 million by 0.5%.

Excluding the impacts of divested businesses, the company's adjusted net sales in the reported quarter were \$734.2 million, down 10.5% year over year.

Regal Beloit reports results under four segments — **Climate Solutions, Commercial Systems, Industrial Systems and Power Transmission Solutions**. The quarterly segmental results were adversely impacted by the pandemic. A brief discussion is provided below:

Revenues from Climate Solutions totaled \$210.1 million, declining 20.2% year over year. It represented 28.6% of net sales. The results were adversely impacted by an organic sales decline of 14.8%, forex woes of 0.4% and divestiture impact of 5%.

Commercial Systems' revenues, representing 27.2% of net sales, were \$199.4 million, down 17.7% year over year. Organic sales in the reported quarter declined 12.5%, while divestments resulted in an adverse impact of 4.5%. Also, forex woes lowered sales by 0.7%.

Industrial Systems generated revenues of \$129.6 million, reflecting a year-over-year decline of 6.2%. It represented 17.6% of the quarter's net sales. Organic sales decreased 4.5% year over year, forex woes hurt results by 1.7%.

Power Transmission Solutions' revenues, representing 26.6% of net sales, were \$195.1 million, down 7.2% year over year. Organic sales dipped 4.2%. Forex woes and divestments had adverse impacts of 0.5% and 2.5%, respectively.

Margin Picture

In the reported quarter, Regal Beloit's cost of sales declined 14.3% year over year to \$530.9 million. It represented 72.3% of net sales versus 72.5% recorded in the year-ago quarter. Gross profit decreased 13.3% year over year to \$203.3 million, while margin increased 20 basis points (bps) to 27.7%. Operating expenses of \$131.8 million increased 26.7% year over year and represented 18% of net sales in the quarter.

Adjusted operating profit was \$79.2 million, down 11.5% year over year, while margin declined 10 bps to 10.8%. Interest expenses in the quarter were down 14.7% year over year to \$11.6 million.

Adjusted effective tax rate in the quarter was 22.1% versus 20.7% in the year-ago quarter.

Balance Sheet and Cash Flow

Exiting the first quarter of 2020, Regal Beloit had cash and cash equivalents of \$604.5 million, reflecting 82.4% growth from \$331.4 million recorded in the last reported quarter. Long-term debt increased 20% sequentially to \$1,364.3 million.

During the quarter, the company's net borrowings under revolving credit facility totaled \$227.1 million.

In the first quarter, Regal Beloit generated net cash of \$102.7 million from operating activities, reflecting year-over-year growth from \$18.3 million in the year-ago quarter. The company's capital investment for purchasing property, plant and equipment decreased by 46% over the year-ago figure to \$10.9 million. Free cash flow was \$91.8 million in the quarter versus (\$1.9) million in the year-ago quarter.

During the first quarter of 2020, the company paid out dividends totaling \$12.2 million to shareholders and repurchased shares worth \$25 million.

Outlook

In the quarters ahead, the company anticipates gaining from its cost-control measures that are essentially implemented to deal with the pandemic. The actions include furloughs, lowering of discretionary spending, reduction in compensation and refraining from hiring new people.

Also, the company's existing restructuring efforts and reorganization actions (80/20) might aid.

The company is wary about the impacts of the pandemic on its near- and mid-term demand for products, its manufacturing activities and supply chain. For now, it withdrew adjusted earnings per share and revenue growth projections for 2020.

The company noted that it suspended its share buyback program for now.

Recent News

Dividend

On **Apr 28, 2020**, Regal Beloit's board of directors approved the payment of a quarterly cash dividend of 30 cents per share to shareholders of record as of Jun 26, 2020. The payment will be made on Jul 10, 2020.

Investor Day

On **Mar 3, 2020**, Regal Beloit hosted its Investor Day. It discussed its long-term expectations as well as 2020 projections.

For 2020, the company maintained its adjusted earnings at \$5.65-\$6.05 per share. A close watch is being kept on the impacts of the coronavirus outbreak and short-cycle trends. Organic sales will likely be flat to modestly down year over year in 2020, with a decline expected in the first half and recovery in the second half. Free cash flow will likely be more than 100% of net income.

From 2020 to 2022, the company believes that organic sales will grow 2-3%, while total revenues will increase 1-2%. Also, expansion in adjusted operating margin will likely be 250-300 basis points, while adjusted earnings per share will likely grow 8-10% (CAGR). Free cash flow conversion will probably be more than 100%. Improvement in return on invested capital (ROIC) will likely be 250-300 basis points.

Valuation

Regal Beloit's shares have increased 0.2% and increased 11.6% in the year to date period and over the trailing 12-month period, respectively. Stocks in the Zacks sub-industry have moved down 11.3%, while the Zacks Industrial Products sector has declined 10.3% in the year-to-date period. Over the past year, the Zacks sub-industry and the sector are up 6.5% and down 2.1%, respectively.

The S&P 500 Index has moved down 3.2% year to date and increased 9.8% in the past year.

The stock is currently trading at 19.44x forward 12-month earnings per share, which compares to 23.68x for the Zacks sub-industry, 22.52x for the Zacks sector and 22.55x for the S&P 500 index.

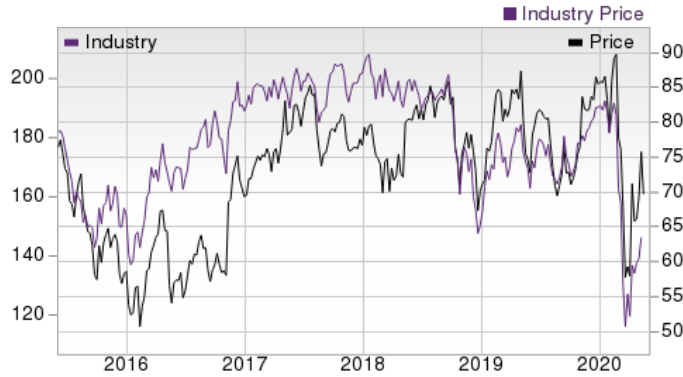
Over the past five years, the stock has traded as high as 19.44x and as low as 8.78x, with a 5-year median of 12.89x. Our Neutral recommendation indicates that the stock will perform in line with the market. Our price target of \$90 reflects 20.41x forward 12-month earnings.

The table below shows summary valuation data for RBC.

Valuation Multiples - RBC					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	19.44	23.68	22.52	22.55
	5-Year High	19.44	23.68	22.52	22.55
	5-Year Low	8.78	13.13	12.55	15.23
	5-Year Median	12.89	17.22	16.58	17.49
EV/EBITDA F12M	Current	10.16	19.6	19.12	13.52
	5-Year High	10.16	24.99	19.12	14.17
	5-Year Low	6.66	9.93	10.6	9.02
	5-Year Median	8.37	13.93	14.15	10.92
EV/Sales F12M	Current	1.43	2.9	3.1	3.21
	5-Year High	1.47	2.9	3.13	3.52
	5-Year Low	1.02	1.52	1.76	2.28
	5-Year Median	1.26	2.12	2.31	2.82

As of 06/04/2020

Industry Analysis Zacks Industry Rank: Top 49% (123 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
IIVI Incorporated (IIVI)	Outperform	1
Nidec Corp. (NJDCY)	Outperform	1
ABB Ltd (ABB)	Neutral	3
Altra Industrial Motion Corp. (AIMC)	Neutral	3
Cummins Inc. (CMI)	Neutral	3
Panasonic Corp. (PCRFY)	Neutral	3
Rexnord Corporation (RXN)	Neutral	3
Timken Company The (TKR)	Neutral	3

Industry Comparison Industry: Manufacturing - Electronics				Industry Peers		
	RBC	X Industry	S&P 500	ABB	AIMC	RXN
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	4	-	-	3	3	3
VGM Score	A	-	-	F	A	B
Market Cap	3.48 B	2.41 B	22.58 B	46.51 B	2.16 B	3.81 B
# of Analysts	5	4	14	2	3	6
Dividend Yield	1.40%	0.36%	1.87%	2.41%	2.03%	1.01%
Value Score	B	-	-	D	B	B
Cash/Price	0.19	0.10	0.06	0.15	0.16	0.16
EV/EBITDA	8.73	10.78	12.93	15.63	9.91	12.07
PEG Ratio	2.43	3.28	3.06	5.45	1.21	3.57
Price/Book (P/B)	1.51	2.40	3.09	3.87	1.23	2.95
Price/Cash Flow (P/CF)	9.59	12.72	12.17	12.72	6.79	11.44
P/E (F1)	24.33	24.65	22.17	33.78	18.17	21.30
Price/Sales (P/S)	1.11	1.80	2.41	1.70	1.21	1.84
Earnings Yield	4.30%	3.48%	4.27%	2.94%	5.50%	4.69%
Debt/Equity	0.62	0.19	0.76	0.62	0.96	1.06
Cash Flow (\$/share)	8.94	2.20	7.01	1.69	4.92	2.78
Growth Score	A	-	-	D	A	A
Hist. EPS Growth (3-5 yrs)	4.97%	6.22%	10.87%	3.42%	16.10%	7.80%
Proj. EPS Growth (F1/F0)	-32.71%	-22.24%	-10.79%	-48.79%	-35.66%	-25.71%
Curr. Cash Flow Growth	-9.82%	2.39%	5.48%	-3.96%	74.66%	5.35%
Hist. Cash Flow Growth (3-5 yrs)	1.95%	2.26%	8.55%	-2.99%	29.14%	4.56%
Current Ratio	3.16	2.12	1.29	1.18	2.48	2.78
Debt/Capital	38.10%	16.14%	44.75%	38.38%	48.99%	51.54%
Net Margin	6.38%	5.53%	10.59%	4.68%	-1.38%	8.71%
Return on Equity	9.49%	9.49%	16.26%	19.64%	9.41%	18.93%
Sales/Assets	0.69	0.70	0.55	0.59	0.42	0.61
Proj. Sales Growth (F1/F0)	-15.82%	-3.02%	-2.61%	-14.36%	-14.51%	-17.51%
Momentum Score	B	-	-	D	B	D
Daily Price Chg	2.11%	1.21%	-0.08%	-0.09%	2.36%	0.79%
1 Week Price Chg	3.78%	4.67%	4.60%	4.74%	8.96%	6.32%
4 Week Price Chg	17.89%	15.86%	12.07%	20.10%	24.87%	19.01%
12 Week Price Chg	35.44%	28.63%	25.17%	27.45%	87.44%	45.07%
52 Week Price Chg	11.59%	11.59%	0.34%	12.42%	-0.45%	13.09%
20 Day Average Volume	218,812	207,864	2,537,324	2,033,317	366,011	829,451
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-8.61%	0.00%	-0.08%	0.00%	0.27%	-7.63%
(F1) EPS Est 12 week change	-36.49%	-28.00%	-16.19%	-37.34%	-27.98%	-28.83%
(Q1) EPS Est Mthly Chg	-15.03%	0.00%	0.00%	NA	5.17%	-7.59%

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	B
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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