

RBC Bearings Inc. (ROLL)

\$145.71 (As of 03/09/20)

Price Target (6-12 Months): **\$153.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 04/03/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: D

Growth: C

Momentum: A

Summary

RBC Bearings has outperformed the industry in the past year. It is poised to gain from improving aerospace and defense businesses, product innovation, expansion in the aftermarket businesses and shareholder-friendly policies in the quarters ahead. Also, growth investments and the company's efforts to lower debts will be beneficial. For the fiscal fourth quarter, the company anticipates revenues to be \$187-\$191 million, indicating a 2.7-4.9% rise from the year-ago reported figure. However, the stock has been overvalued compared with its industry. Also, weakness in industrial markets might be a drag. If unchecked, higher costs and operating expenses might hurt its margins and profitability. In addition, the company is dealing with issues related to the 737 MAX aircraft production.

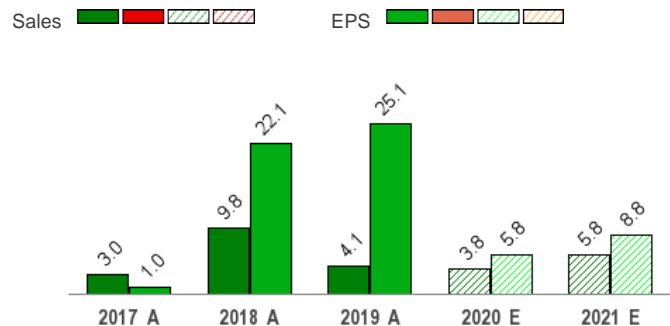
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$185.05 - \$125.02
20 Day Average Volume (sh)	101,508
Market Cap	\$3.6 B
YTD Price Change	-8.0%
Beta	0.90
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Manufacturing - General Industrial
Zacks Industry Rank	Bottom 28% (182 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-1.6%
Last Sales Surprise	-1.3%
EPS F1 Est- 4 week change	0.6%
Expected Report Date	05/28/2020
Earnings ESP	0.0%
P/E TTM	28.7
P/E F1	28.5
PEG F1	4.9
P/S TTM	5.0

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	189 E	185 E	183 E	197 E	772 E
2020	183 A	182 A	177 A	188 E	730 E
2019	176 A	173 A	171 A	182 A	703 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.29 E	\$1.28 E	\$1.33 E	\$1.48 E	\$5.57 E
2020	\$1.23 A	\$1.30 A	\$1.22 A	\$1.37 E	\$5.12 E
2019	\$1.15 A	\$1.22 A	\$1.15 A	\$1.33 A	\$4.84 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 03/09/2020. The reports text is as of 03/10/2020.

Overview

Headquartered in Oxford, CN, RBC Bearings Incorporated manufactures and distributes plain, roller and ball bearings. These bearings are tools that reduce damage and energy loss, and enable proper power transmission in the majority of machines and mechanical systems.

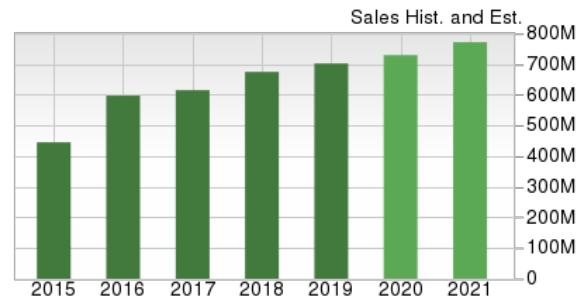
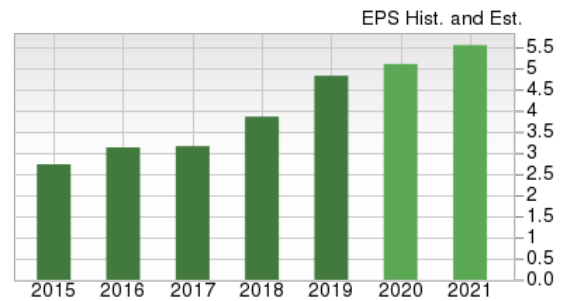
The company sells its products through sales experts and uses product managers, marketing managers, customer service representatives and product application engineers in its selling efforts.

RBC Bearings' operations are divided into four segments, each of which is discussed below:

- **Plain Bearings** (49% of total revenues in the third quarter of fiscal 2020): The segment offers a range of plain bearings mainly to the aerospace industry, which are per requirement of various customer design and performance standards.

The bearings are used to correct misalignments in diverse mechanical machinery. These are further classified into rod-end bearings, spherical plain bearings and journal bearings.

- **Roller Bearings** (18%): Roller bearings are elements that carry a load, using cylindrical rolling elements. The company offers a variety of roller bearings like tapered roller bearings, needle roller bearings, aircraft roller bearings and track rollers.
- **Ball Bearings** (10.5%): Ball bearings are elements which reduce friction using ball elements. The company manufactures four types of ball bearings; high precision aerospace bearings used in the defense industry; airframe control ball bearings, used for military purposes; thin section ball bearings, used in machinery manufacturing; and commercial ball bearings.
- **Engineered Products** (22.5%): The segment deals with highly engineered products such as fasteners, hydraulics, precision components and collets used in industrial, marine and aerospace applications.



Reasons To Buy:

- ▲ In the past year, shares of RBC Bearings have gained 8.5% against the industry's decline of 5.9%. In the fiscal third quarter, the company's revenues inched up 3.2% year over year. Organically, revenues improved 3.6% on a healthy growth trajectory in aerospace markets, driven by aftermarket as well as defense and commercial OEM businesses. For fourth-quarter fiscal 2020, the company anticipates year-over-year revenue growth of 2.7-4.9% to \$187-\$191 million. Organic sales in the period will likely grow 1.9-3.5%.
- ▲ RBC Bearings noted that it remains committed toward product innovation, efforts to improve aftermarket sales, expansion in the new markets, growth in customer base and adherence to acquisition policy. In the fiscal third quarter, the company's adjusted earnings increased 6.1% from the year-ago quarter on the back of a healthy sales rise. Also, it recorded 4.1% gain in adjusted gross profit and 3.2% improvement in adjusted operating income. We believe that the company's growth strategies will help drive performances in the quarters ahead.
- ▲ RBC Bearings focuses on lowering debt burden and funding growth investments. For instance, in the first three quarters of fiscal 2020, the company successfully lowered debt by \$45.8 million (including \$45.4 million of revolving credit facilities and \$0.4 million of notes). Its total long-term debt at the end of third-quarter fiscal 2020 was \$16.2 million, down from \$43.2 million at the end of fiscal 2019. Also, it remains committed to rewarding its shareholders handsomely through share buyback programs. Notably, the company repurchased shares worth \$5.2 million in fiscal 2019 and \$11.5 million in the first three quarters of fiscal 2020. Notably, in May 2019, its board of directors approved a \$100-million share repurchase plan.

New contracts, efforts to lower debt burden and rewarding shareholders through share buybacks will help boost RBC Bearings' performance in the quarters ahead.

Reasons To Sell:

- ▼ On a P/E (TTM) basis, RBC Bearings looks overvalued compared with the industry, given the respective tallies of 28.68x and 18.13x. Also, the company's current multiple is higher than the industry's one-year highest level of 22.04x. In third-quarter fiscal 2020, the company's earnings and sales lagged estimates by 1.6% and 1.3%, respectively. The company noted that issues with the 737 MAX aircraft compelled shifting of \$4 million revenues in fiscal 2021.
- ▼ RBC Bearings' industrial sales in third-quarter fiscal 2020 recorded a decline of 11% on a year-over-year basis. The company stated that its industrial sales were hurt by weakness in mining end markets. Also, softness in mining and energy markets were offset by growth in the semiconductor market. Industrial sales for the Plain Bearings segment were down 7% while the same dropped 15.1% for the Roller Bearings and 12% for the Engineered Products segments. We believe that the persistence of these woes might have adversely impacted the company's revenues in the quarters ahead.
- ▼ RBC Bearings is currently dealing with the rising cost of sales. For instance, in the last five fiscal years (2015-2019), the company's cost of sales rose 9.2% year over year (CAGR). It is worth noting here that the metric recorded a year-over-year increase of 5.4% and 2.9% in the second and third quarter of fiscal 2020, respectively. Also, selling, general and administrative expenses rose 4.9% in the second quarter and 5.4% in the third quarter. We believe, if unchecked, higher costs and operating expenses will prove detrimental to the company's margins and profitability.

Persistence of weakness in industrial end markets as well as high cost and operating expenses might continue to hurt RBC Bearings' near-term profitability.

Last Earnings Report

RBC Bearings Q3 Earnings and Revenues Miss Estimates

RBC Bearings reported weaker-than-expected results for the third quarter of fiscal 2020 (ended Dec 28, 2019). Its earnings and sales lagged estimates by 1.6% and 1.3%, respectively.

The machinery company's adjusted earnings in the reported quarter were \$1.22 per share, below the Zacks Consensus Estimate of \$1.24. However, the bottom line improved 6.1% from the year-ago number of \$1.15 on healthy sales growth.

Quarter Ending **12/2019**

Report Date	Feb 04, 2020
Sales Surprise	-1.26%
EPS Surprise	-1.61%
Quarterly EPS	1.22
Annual EPS (TTM)	5.08

Segmental Revenues

In the quarter under review, RBC Bearings' revenues of \$177 million reflected year-over-year growth of 3.2%. Organic sales in the period rose 3.6% year over year, driven by 13% higher sales from aerospace markets, partially offset by an 11% decline in industrial sales.

However, the company's revenues lagged the Zacks Consensus Estimate of \$179.3 million.

Exiting the reported quarter, it had backlog of \$477.7 million, up 11.6% year over year.

RBC Bearings reports net sales under four heads/segments that are discussed below:

Revenues from Plain bearings totaled \$86.9 million, up 9.5% year over year while the same from Roller bearings decreased 8.6% year over year to \$31.8 million. Ball bearings' revenues of \$18.5 million were up 10.5% year over year. Revenues from Engineered products summed \$39.8 million, down 1.8% year over year.

Margin Profile

In the reported quarter, RBC Bearings' cost of sales increased 2.9% year over year to \$106.3 million, representing 60.1% of net sales compared with 60.3% a year ago. Adjusted gross profit improved 4.1% year over year to \$70.9 million. Margin inched up 40 basis points (bps) to 40.1%.

Selling, general and administrative expenses of \$30.7 million were up 5.4% year over year, accounting for 17.4% of net sales. Adjusted operating income grew 3.2% year over year to \$37.8 million. Adjusted margin was flat year over year at 21.4%.

Effective tax rate was 17% in the quarter under review compared with 15% in the prior year.

Balance Sheet and Cash Flow

Exiting the fiscal third quarter, RBC Bearings had cash and cash equivalents of \$60.3 million, surging 65.7% from \$36.4 million recorded at the previous quarter-end. Long-term debt was \$16.2 million, down 35.4% sequentially.

In the first nine months of fiscal 2020, the company generated net cash of \$111.2 million from operating activities, up 40.7% from \$79 million in the year earlier. Capital spending of \$27.6 million fell 5.6% year over year. The company repurchased shares worth \$11.5 million.

Outlook

For the fourth quarter of fiscal 2020 (ending March 2020), RBC Bearings anticipates net sales of \$187-\$191 million, suggesting growth of 2.7-4.9% from the year-ago reported figure. Excluding the impact of \$2.4-million sales from Swiss Tool (acquired in August 2019), the company expects sales growth of 1.3-3.5%.

In addition, the company noted that its current content (for engines and airframe for 737 Max aircraft) is \$120,000 per plane. It believes that this might increase to \$160,000 per plane with maturity of new contracts.

Valuation

RBC Bearings' shares have decreased 8% year to date, while increased 8.5% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Industrial Products sector have moved down 18.3% and 20.6% year to date, respectively. Over the past year, the Zacks sub-industry and the sector decreased 5.9% and 14.3%, respectively.

The S&P 500 index has moved down 7.8% year to date, while increased 5.6% in the past year.

The stock is currently trading at 26.3x forward 12-month earnings per share, which compares to 17.19x for the Zacks sub-industry, 14.52x for the Zacks sector and 15.75x for the S&P 500 index.

Over the past five years, the stock has traded as high as 33.62x and as low as 15.93x, with a 5-year median of 26.04x. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$153 price target reflects 26.62x forward 12-month earnings per share.

The table below shows summary valuation data for ROLL.

Valuation Multiples - ROLL					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	26.3	17.19	14.52	15.75
	5-Year High	33.62	22.58	19.89	19.34
	5-Year Low	15.93	15.2	12.6	15.18
	5-Year Median	26.04	18.95	16.43	17.42
EV/EBITDA F12M	Current	19.68	11.74	15.58	12.34
	5-Year High	22.2	13.46	18.2	14.18
	5-Year Low	9.99	8.3	10.68	9.08
	5-Year Median	16.09	10.82	14.09	10.82
EV/Sales F12M	Current	5.11	2.51	2.8	3.04
	5-Year High	5.87	2.88	3.15	3.51
	5-Year Low	2.31	1.67	1.76	2.3
	5-Year Median	4.12	2.33	2.29	2.8

As of 03/09/2020

Industry Analysis Zacks Industry Rank: Bottom 28% (182 out of 253)



Top Peers

Tennant Company (TNC)	Outperform
Helios Technologies, Inc (HLIO)	Neutral
Luxfer Holdings PLC (LXFR)	Neutral
Manitex International, Inc. (MNTX)	Neutral
Regal Beloit Corporation (RBC)	Neutral
Rexnord Corporation (RXN)	Neutral
Timken Company (The) (TKR)	Neutral
Kadant Inc (KAI)	Underperform

Industry Comparison Industry: Manufacturing - General Industrial				Industry Peers		
	ROLL Neutral	X Industry	S&P 500	RBC Neutral	RXN Neutral	TKR Neutral
VGM Score	C	-	-	A	A	B
Market Cap	3.65 B	1.25 B	19.13 B	2.76 B	3.12 B	2.76 B
# of Analysts	3	4	13	5	6	6
Dividend Yield	0.00%	0.00%	2.26%	1.77%	1.25%	3.07%
Value Score	D	-	-	A	B	B
Cash/Price	0.02	0.07	0.05	0.11	0.08	0.07
EV/EBITDA	22.41	9.98	11.99	7.36	9.91	6.04
PEG Ratio	4.94	2.05	1.68	1.17	1.55	1.75
Price/Book (P/B)	3.38	1.92	2.64	1.17	2.28	1.41
Price/Cash Flow (P/CF)	24.06	9.42	10.70	7.58	8.35	5.34
P/E (F1)	28.97	15.00	15.44	11.66	12.93	8.22
Price/Sales (P/S)	5.04	1.08	2.05	0.85	1.52	0.73
Earnings Yield	3.51%	6.65%	6.47%	8.58%	7.73%	12.15%
Debt/Equity	0.04	0.52	0.70	0.50	0.84	0.88
Cash Flow (\$/share)	6.05	2.74	7.01	8.94	3.07	6.83
Growth Score	C	-	-	B	C	B
Hist. EPS Growth (3-5 yrs)	15.01%	7.79%	10.85%	5.54%	6.27%	20.28%
Proj. EPS Growth (F1/F0)	5.79%	4.15%	6.25%	5.94%	7.03%	-3.59%
Curr. Cash Flow Growth	21.08%	9.51%	6.09%	-9.82%	34.59%	8.64%
Hist. Cash Flow Growth (3-5 yrs)	14.85%	4.53%	8.52%	1.95%	5.48%	6.82%
Current Ratio	5.60	1.96	1.24	2.87	2.79	2.54
Debt/Capital	3.50%	34.45%	42.57%	33.29%	45.61%	46.80%
Net Margin	17.09%	6.24%	11.69%	7.38%	9.66%	9.55%
Return on Equity	12.35%	11.75%	16.74%	9.69%	18.82%	19.49%
Sales/Assets	0.60	0.78	0.54	0.71	0.63	0.81
Proj. Sales Growth (F1/F0)	3.88%	0.00%	3.76%	-3.09%	0.60%	-0.51%
Momentum Score	A	-	-	D	B	F
Daily Price Chg	-7.47%	-7.21%	-7.65%	-10.81%	-8.21%	-11.50%
1 Week Price Chg	-8.01%	-1.94%	-0.67%	-2.04%	-4.32%	-8.10%
4 Week Price Chg	-18.73%	-19.52%	-19.26%	-20.79%	-24.48%	-30.85%
12 Week Price Chg	-10.94%	-20.29%	-17.26%	-20.16%	-20.74%	-34.88%
52 Week Price Chg	8.46%	-14.64%	-6.83%	-15.75%	-4.83%	-15.77%
20 Day Average Volume	101,508	56,241	2,684,709	330,879	854,101	792,094
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-0.48%	0.00%	-0.34%
(F1) EPS Est 4 week change	0.59%	0.00%	-0.06%	0.38%	-0.08%	-0.34%
(F1) EPS Est 12 week change	-1.58%	-2.33%	-0.46%	1.68%	1.37%	-4.83%
(Q1) EPS Est Mthly Chg	1.48%	-0.12%	-0.40%	-4.93%	-0.65%	-1.71%

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	D
Growth Score	C
Momentum Score	A
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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