

RBC Bearings Inc. (ROLL)

\$135.09 (As of 08/10/20)

Price Target (6-12 Months): **\$115.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform
(Since: 07/30/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:C

Value: F

Growth: B

Momentum: C

Summary

RBC Bearings' first-quarter fiscal 2021 earnings and revenues beat the Zacks Consensus Estimate by 4.6% and 2.5%, respectively. In the quarters ahead, the company expects the pandemic to affect its operational performance. Revenues for the fiscal second quarter are expected to be \$148-\$152 million, suggesting a decline from \$181.8 million reported in the year-ago quarter. Commercial aerospace (both aftermarket and OEM) will likely face headwinds from reduced air travel. Also, industrial businesses will likely suffer from the pandemic woes in the first half of fiscal 2020. In the past six months, its shares have underperformed and look overvalued compared with the industry. However, a healthy liquidity position might help it deal with the uncertainties associated with the pandemic. A healthy backlog might be beneficial, moving ahead.

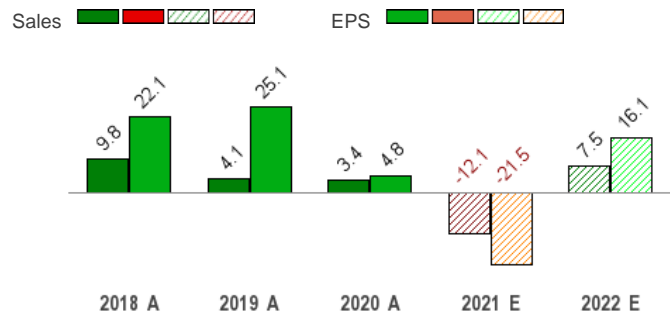
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$185.06 - \$77.77
20 Day Average Volume (sh)	88,010
Market Cap	\$3.4 B
YTD Price Change	-14.7%
Beta	1.21
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Manufacturing - General Industrial
Zacks Industry Rank	Bottom 29% (180 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	4.6%
Last Sales Surprise	2.5%
EPS F1 Est- 4 week change	-1.2%
Expected Report Date	11/06/2020
Earnings ESP	-14.3%
P/E TTM	28.4
P/E F1	33.9
PEG F1	5.8
P/S TTM	4.8

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	169 E	173 E	178 E	193 E	687 E
2021	156 A		160 E	172 E	639 E
2020	183 A	182 A	177 A	186 A	727 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$1.01 E	\$1.05 E	\$1.15 E	\$1.28 E	\$4.62 E
2021	\$0.91 A	\$0.93 E	\$1.02 E	\$1.15 E	\$3.98 E
2020	\$1.23 A	\$1.30 A	\$1.22 A	\$1.33 A	\$5.07 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 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.

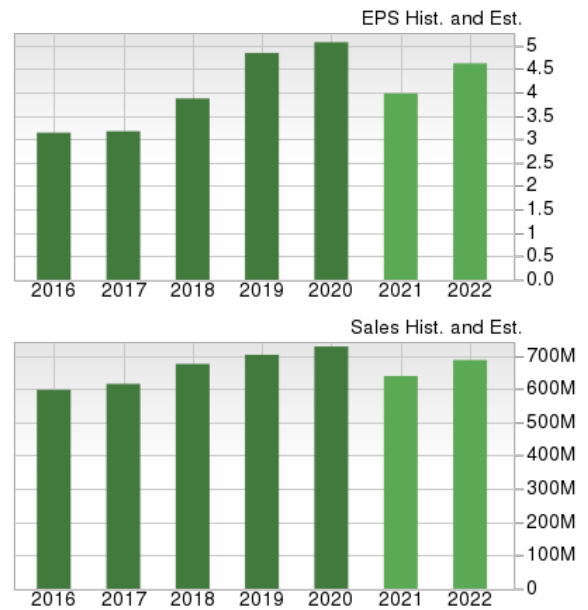
The company sells its products through sales experts and uses product managers, marketing managers, customer service representatives and product application engineers in its selling efforts.

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

- **Plain Bearings** (50.4% of total revenues in the first quarter of fiscal 2021): 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** (14.6%): 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** (12%): 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** (23%): The segment deals with highly engineered products such as fasteners, hydraulics, precision components and collets used in industrial, marine and aerospace applications.



Reasons To Sell:

- ▼ In the past six months, shares of RBC Bearings have lost 25.8% as compared with the industry's decline of 10.4%. On a P/E (TTM) basis, the company's shares look overvalued compared with the industry, given the respective tallies of 28.38X and 26.12X. In addition, its current multiple is higher than the industry's six-month highest level of 26.12X. This makes us cautious about the stock.
- ▼ In the first quarter of fiscal 2021, RBC Bearings' earnings declined 22.8% on a year-over-year basis, owing to the weak sales on account of the coronavirus outbreak-led market downturn and a fall in margin. Notably, the gross margin moved down 70 basis points to 38% in the quarter. The company believes that the pandemic will continue to adversely impact its operations in fiscal 2021. Notably, the Zacks Consensus Estimate for its earnings is pegged at \$3.98 for fiscal 2021, suggesting a 21.5% decline from earnings of \$5.07 generated in fiscal 2020.
- ▼ In the fiscal first quarter, RBC Bearings' revenues declined 14.3% year over year, with organic sales decreasing 15.5%. The company's industrial sales suffered, with sales declining 13.3% year over year in first-quarter fiscal 2021. The decline was attributable to weakness across natural resources, mining, and oil and general industrial end-markets amid the coronavirus outbreak. Also, the company's overall aerospace business experienced a 14.9% decrease in sales, owing to the persistent softness in the commercial aerospace business due to the pandemic. In the quarters ahead, the company believes that the commercial aerospace business — including OEM and aftermarket — will continue to face headwinds from reduced air travel. Its industrial business will also likely face adverse impacts of the pandemic in the first half of fiscal 2021. Revenues in the fiscal second quarter will likely be \$148-\$152 million, suggesting a decline from \$181.9 million reported in the year-ago quarter.

Persistence of weakness in industrial and commercial aerospace end markets might continue to hurt RBC Bearings' near-term performances.

Risks

- Despite weaknesses in the commercial aerospace business, the company's overall aerospace business will likely benefit on the back of healthy OEM and aftermarket defense businesses. Notably, in the fiscal first quarter, its OEM and aftermarket defense businesses grew 11.9% on a year-over-year basis. For fiscal 2021, the company expects to see growth in the defense business. Also, it expects the demand in industrial business to gain momentum in the second half of the year. In addition, a healthy backlog — which was \$431.9 million at the end of first-quarter fiscal 2021 — might be beneficial for the company in the quarters ahead.
 - A healthy liquidity position might help RBC Bearings to deal with the uncertainties associated with the pandemic and also to fund growth investments. At the end of the fiscal first quarter, the company's cash and cash equivalents were \$143.6 million — reflecting sequential growth of 39% — and liquidity under the revolving credit facilities was \$259.3 million. However, the company's total debt was just \$23.1 million, reflecting a sequential increase of 0.4%. The increase in debt is not much of a problem, as healthy liquidity will help the company to pay down its financial obligations.
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Last Earnings Report

RBC Bearings Q1 Earnings Top Estimates, Decline Y/Y

RBC Bearings reported better-than-expected results for the first quarter of fiscal 2021 (ended Jun 27, 2020), wherein both earnings and revenues surpassed the consensus estimate.

On a GAAP basis, net earnings in the quarter were \$22.7 million or 91 cents per share compared with a net income of \$30.5 million or \$1.23 per share in the year-ago quarter. The bottom line surpassed the Zacks Consensus Estimate of 87 cents by 4.6%.

The machinery company's adjusted earnings in the reported quarter were 95 cents per share, down 22.8% on a year-over-year basis.

Quarter Ending **06/2020**

Report Date	Aug 06, 2020
Sales Surprise	2.54%
EPS Surprise	4.60%
Quarterly EPS	0.91
Annual EPS (TTM)	4.76

Revenue Details

In the quarter under review, RBC Bearings' revenues of \$156.5 million reflected a year-over-year decline of 14.3%. Organic sales in the quarter were down 15.5% year over year.

The company noted that the aerospace end-markets in the quarter were adversely impacted by the pandemic. Its overall aerospace business experienced a 14.9% decrease in revenues. In addition, the company's business in industrial markets recorded a 13.3% year-over-year decline in revenues.

Revenues surpassed the Zacks Consensus Estimate of \$153 million by 2.5%.

Exiting the reported quarter, the company had backlog of \$431.9 million, down 6% year over year.

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

Revenues from Plain bearings totaled \$78.9 million, down 9.8% year over year, while the same from Roller bearings declined 37.9% year over year to \$22.9 million. Ball bearings' revenues of \$18.8 million were up 6.2% year over year. Revenues from Engineered products summed \$35.9 million, down 11.5% year over year.

Margin Profile

In the reported quarter, RBC Bearings' cost of sales moved down 13.4% year over year to \$97 million, representing 62% of net sales compared with 61.2% a year ago. Gross profit decreased 15.9% year over year to \$59.5 million. Margin moved down 70 basis points (bps) to 38%.

Selling, general and administrative expenses of \$26.8 million were down 11% year over year, accounting for 17.1% of net sales. Operating income declined 25.2% year over year to \$28.8 million. Operating margin moved down 270 bps year over year at 18.4%. Interest expenses, net, declined 22.3% year over year to \$425 million in the quarter.

Effective tax rate was 20% in the quarter under review compared with 19.3% in the prior-year quarter.

Balance Sheet and Cash Flow

Exiting the fiscal first quarter, RBC Bearings had cash and cash equivalents of \$143.6 million, up from \$103.3 million recorded at the end of the previous quarter. Total debt was \$ 23.1 million, up 0.4% sequentially.

The company also noted that it has outstanding revolving credit facilities of \$259.3 million.

In the first three months of fiscal 2021, it generated net cash of \$48.4 million from operating activities, up 20.7% from \$40.1 million a year ago. Capital spending of \$3.9 million fell 67.5% year over year. The company repurchased shares worth \$4.4 million, reflecting a decline from \$9.5 million in the previous year's comparable period.

Outlook

For second-quarter fiscal 2021 (ending September 2020), it predicts revenues of \$148-\$152 million, suggesting a decline from \$181.9 million in the year-ago quarter.

Valuation

RBC Bearings' shares have decreased 14.7% year to date and 14.8% over the trailing 12-month period. 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 increased 9.1%, while the sector increased 12.2%.

The S&P 500 Index has moved up 3.8% year to date and 16.4% in the past year.

The stock is currently trading at 32.08x forward 12-month earnings per share, which compares to 27.11x for the Zacks sub-industry, 21.8x for the Zacks sector and 22.75x for the S&P 500 index.

Over the past five years, the stock has traded as high as 37.46x and as low as 15.22x, with a 5-year median of 26.59x. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$115 price target reflects 27.31x 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	32.08	27.11	21.8	22.75
	5-Year High	37.46	27.11	21.8	22.75
	5-Year Low	15.22	15.6	12.55	15.25
	5-Year Median	26.59	19.7	17.48	17.58
P/Sales F12M	Current	5.16	3.44	2.9	3.65
	5-Year High	5.95	3.44	2.9	3.65
	5-Year Low	2	1.58	1.52	2.53
	5-Year Median	4.12	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
Helios Technologies, Inc (HLIO)	Outperform	1
Regal Beloit Corporation (RBC)	Outperform	2
Rexnord Corporation (RXN)	Outperform	1
Timken Company The (TKR)	Outperform	1
Tennant Company (TNC)	Outperform	1
Kadant Inc (KAI)	Neutral	3
Luxfer Holdings PLC (LXFR)	Neutral	3
Manitex International, Inc. (MNTX)	Neutral	3

Industry Comparison Industry: Manufacturing - General Industrial				Industry Peers		
	ROLL	X Industry	S&P 500	RBC	RXN	TKR
Zacks Recommendation (Long Term)	Underperform	-	-	Outperform	Outperform	Outperform
Zacks Rank (Short Term)	4	-	-	2	1	1
VGM Score	C	-	-	B	F	B
Market Cap	3.39 B	1.30 B	23.56 B	3.96 B	3.81 B	4.08 B
# of Analysts	3	3	14	4	5	6
Dividend Yield	0.00%	0.00%	1.71%	1.23%	1.01%	2.06%
Value Score	F	-	-	A	D	B
Cash/Price	0.03	0.10	0.07	0.11	0.10	0.11
EV/EBITDA	17.68	13.12	13.39	9.59	12.00	7.75
PEG Ratio	5.99	3.30	2.92	2.20	2.83	5.94
Price/Book (P/B)	3.03	1.94	3.18	1.69	2.81	2.07
Price/Cash Flow (P/CF)	21.36	11.72	12.69	10.92	11.40	7.95
P/E (F1)	35.15	29.93	22.16	21.98	20.04	15.51
Price/Sales (P/S)	4.83	1.31	2.55	1.38	1.90	1.15
Earnings Yield	2.95%	3.03%	4.33%	4.55%	4.98%	6.44%
Debt/Equity	0.04	0.51	0.77	0.50	0.85	0.91
Cash Flow (\$/share)	6.32	2.49	6.94	8.94	2.78	6.83
Growth Score	B	-	-	C	D	C
Hist. EPS Growth (3-5 yrs)	14.60%	10.21%	10.41%	3.98%	8.99%	23.38%
Proj. EPS Growth (F1/F0)	-21.56%	-23.37%	-6.51%	-19.08%	-21.29%	-23.88%
Curr. Cash Flow Growth	5.37%	0.16%	5.26%	-9.82%	5.35%	8.64%
Hist. Cash Flow Growth (3-5 yrs)	14.81%	7.19%	8.55%	1.95%	4.56%	6.82%
Current Ratio	5.90	2.06	1.34	2.90	2.52	3.02
Debt/Capital	3.45%	34.34%	44.59%	33.51%	45.89%	47.78%
Net Margin	16.86%	4.34%	10.13%	5.57%	8.42%	9.06%
Return on Equity	10.98%	10.81%	14.59%	8.55%	17.52%	16.41%
Sales/Assets	0.55	0.76	0.51	0.64	0.59	0.73
Proj. Sales Growth (F1/F0)	-12.19%	-7.25%	-1.54%	-14.66%	-8.48%	-12.85%
Momentum Score	C	-	-	A	D	A
Daily Price Chg	2.46%	1.34%	0.91%	0.84%	3.09%	4.83%
1 Week Price Chg	7.70%	4.95%	2.30%	5.28%	6.14%	13.47%
4 Week Price Chg	6.45%	10.36%	8.54%	11.45%	11.35%	20.24%
12 Week Price Chg	13.64%	20.62%	13.68%	28.66%	8.56%	32.43%
52 Week Price Chg	-14.79%	0.86%	3.71%	36.54%	17.17%	31.37%
20 Day Average Volume	88,010	59,993	2,015,804	233,218	738,364	564,600
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	10.58%	2.86%	5.00%
(F1) EPS Est 4 week change	-1.16%	2.82%	1.67%	12.18%	7.13%	29.61%
(F1) EPS Est 12 week change	-13.30%	3.13%	2.27%	20.26%	-1.13%	29.61%
(Q1) EPS Est Mthly Chg	-1.41%	3.49%	0.67%	19.52%	8.20%	30.25%

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	F
Growth Score	B
Momentum Score	C
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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