

## RBC Bearings Inc. (ROLL)

**\$168.63** (As of 01/13/20)

Price Target (6-12 Months): **\$177.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 04/03/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**4-Sell**

Zacks Style Scores:

VGM:F

Value: F

Growth: C

Momentum: F

### Summary

RBC Bearings is poised to gain from strong demand in aerospace and defense end markets, driven by manufacturing capability building and benefits from new contracts. Also, growth investments, shareholder-friendly policies and efforts to lower debts will be beneficial in the quarters ahead. For third-quarter fiscal 2020, the company anticipates revenues of \$177-\$179 million, suggesting 3.2-4.4% growth from the year-ago reported figure. However, it anticipates lower shipping and production days to impact sales. Also, weakness in industrial markets and high costs might be dragging. In the past three months, the company's shares have underperformed the industry and look comparatively overvalued. Additionally, its earnings estimates for fiscals 2020 and 2021 have been lowered in the past 60 days.

### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	\$174.94 - \$125.02
20 Day Average Volume (sh)	80,835
Market Cap	\$4.2 B
YTD Price Change	6.5%
Beta	1.16
Dividend / Div Yld	\$0.00 / 0.0%
Industry	<a href="#">Manufacturing - General Industrial</a>
Zacks Industry Rank	Bottom 28% (184 out of 254)

### Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	7.4%
Last Sales Surprise	0.6%
EPS F1 Est- 4 week change	-1.0%
Expected Report Date	02/04/2020
Earnings ESP	0.0%
P/E TTM	33.7
P/E F1	32.7
PEG F1	5.6
P/S TTM	5.9

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	194 E	196 E	189 E	204 E	793 E
2020	183 A	182 A	179 E	190 E	734 E
2019	176 A	173 A	171 A	182 A	703 A

### EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.32 E	\$1.35 E	\$1.32 E	\$1.62 E	\$5.65 E
2020	\$1.23 A	\$1.30 A	\$1.24 E	\$1.42 E	\$5.15 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 01/13/2020. The reports text is as of 01/14/2020.

## 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.

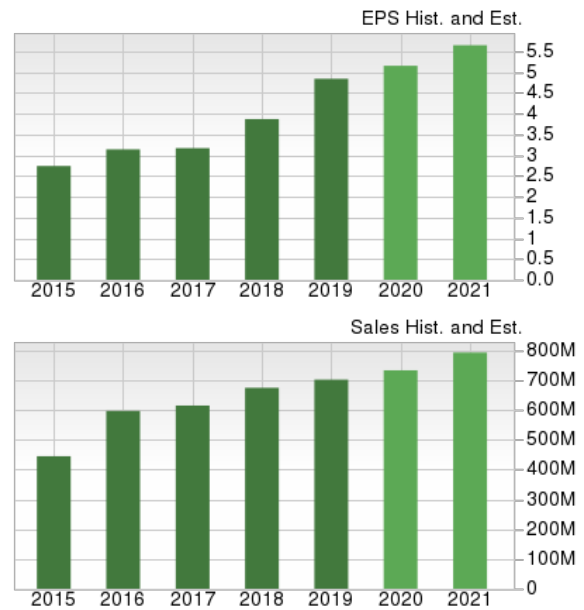
The company sells its products through sales experts and uses product managers, marketing managers, customer service representatives and product application engineers in its selling efforts.

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

- **Plain Bearings** (49.5% of total revenues in the second 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** (17.9%): 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** (9.6%): 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.



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## Reasons To Buy:

- ▲ In second-quarter fiscal 2020, RBC Bearing's revenues surpassed estimates by 0.55% and increased 5.2% year over year. Organically, revenues improved 6.8% on healthy growth in aerospace markets, driven by an increase in aftermarket as well as commercial and defense OEM businesses. In the quarters ahead, the company believes that building manufacturing capabilities and benefits from new contracts will boost sales from aerospace and defense markets. For third-quarter fiscal 2020, it anticipates year-over-year revenue growth of 3.2-4.4% to \$177-\$179 million.
- ▲ In the fiscal second quarter, RBC Bearing's adjusted earnings outpaced the Zacks Consensus Estimate by 7.4%, and were 6.6% higher than the year-ago figure. The company stated that the stellar performance was backed by healthy sales growth and improvement in operating margin. Notably, adjusted operating margin expanded 30 basis points (bps) year over year in the quarter. We believe that the persistence of robust sales performance and margin improvement will help in boosting profitability in the quarters ahead.
- ▲ RBC Bearings focuses on lowering debt burden and funding growth investments. For instance, in the first half of 2020, the company successfully lowered debt by \$30.2 million (including \$30 million of revolving credit facilities and \$0.2 million of notes). Its total long-term debt at the end of the first half of the fiscal year was \$37.8 million. Also, it remains committed to rewarding shareholders handsomely through share buyback programs. Notably, the company repurchased shares worth \$5.2 million in fiscal 2019 and \$9.8 million in the first half of fiscal 2020. Notably, in May 2019, its board of directors approved a \$100-million share repurchase program.

Increased demand from aerospace and defense end markets as well as shareholder-friendly policies will likely strengthen RBC Bearings' competency.

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## Reasons To Sell:

- ▼ In the past three months, shares of RBC Bearings have gained 4.3% compared with the industry's growth of 11.8%. On a P/E (TTM) basis, the stock looks overvalued compared with the industry, with the respective tallies of 33.66x and 22.51x. Also, the company's current multiple is higher than the industry's three-month highest level of 22.51x. In addition to stock's underperformance and overvaluation compared with the industry, lowered earnings estimates for RBC Bearings make us cautious. In the past 60 days, the consensus estimate for the company's earnings has been lowered by 1.3% to \$5.15 for fiscal 2020 and 1.4% to \$5.65 for fiscal 2021.
- ▼ RBC Bearings' industrial sales in second-quarter fiscal 2020 recorded a decline of 5% on a year-over-year basis. The company stated that its industrial sales were hurt by weakness in general industrial and energy end markets. For the Roller Bearings segment, industrial sales were down 20.7% due to softness in general industrial, mining and energy markets, and the same declined 5.2% year over year for the Ball Bearings segment. We believe that the persistence of these issues might adversely impact the company's revenues in the quarters ahead. Also, it expects lesser shipping and production days (to the extent of four to five days) due to the holiday season to adversely impact sales for the fiscal third quarter.
- ▼ RBC Bearings is currently dealing with rising costs 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 year-over-year increases of 3.5% and 5.4% in the first and second quarters of fiscal 2020, respectively. Also, selling, general and administrative expenses rose 1.7% in the first quarter and 4.9% in the second 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 fewer shipping and production days, and high cost of sales might continue to hurt RBC Bearings' near-term profitability.

## Last Earnings Report

### RBC Bearings Q2 Earnings and Revenues Top Estimates

RBC Bearings kept its earnings beat streak alive in the second quarter of fiscal 2020 (ended Sep 28, 2019). Its earnings surpassed estimates by 7.4%.

The machinery company's adjusted earnings in the reported quarter were \$1.30 per share, surpassing the Zacks Consensus Estimate of \$1.21. Also, the bottom line rose 6.6% from the year-ago quarter's number of \$1.30 on healthy sales growth and improvement in operating margin.

Quarter Ending **09/2019**

Report Date	Nov 01, 2019
Sales Surprise	<b>0.55%</b>
EPS Surprise	<b>7.44%</b>
Quarterly EPS	<b>1.30</b>
Annual EPS (TTM)	<b>5.01</b>

### Organic Sales Drive Revenues

In the quarter under review, RBC Bearings' revenues totaled \$181.9 million, reflecting year-over-year growth of 5.2%. Organic sales in the quarter grew 6.8% year over year on healthy growth in aerospace markets. Business in industrial markets was weak, with sales down 5% year over year.

Also, the company's revenues surpassed the Zacks Consensus Estimate of \$181 million by 0.55%.

Exiting the reported quarter, it had backlog of \$473.2 million, up 10.1% year over year.

RBC Bearings reports net sales under four heads/segments. The segmental results are briefly discussed below:

Revenues from **Plain Bearings** totaled \$90 million, up 16.2% year over year, while that from **Roller Bearings** declined 11.9% year over year to \$32.6 million. **Ball Bearings**' revenues were \$17.4 million, down 3.4% year over year. Revenues from **Engineered Products** totaled \$41.9 million, up 3.7% year over year.

Notably, the company acquired Switzerland-based Swiss Tool Systems in August 2019. The transaction value was approximately \$33.8 million. The acquired assets are part of the Engineered Products segment.

### Operating Margin Improves Y/Y

In the reported quarter, RBC Bearings' cost of sales grew 5.4% year over year to \$110.8 million. It represented 60.9% of net sales versus 60.8% recorded in the year-ago quarter. Adjusted gross profit in the quarter rose 5% year over year to \$71.2 million. Margin in the quarter declined 10 basis points (bps) to 39.1%.

Selling, general and administrative expenses of \$30.8 million rose 4.9% year over year, and represented 16.9% of net sales versus 17% in the year-ago quarter. Adjusted operating income in the reported quarter grew 7% year over year to \$38.4 million. Adjusted margin was 21.1% versus 20.8% in the year-ago quarter.

Effective tax rate was 14.7% in the quarter under review versus 11.7% in the year-ago quarter.

### Balance Sheet and Cash Flow

Exiting the fiscal second quarter, RBC Bearings had cash and cash equivalents of \$36.4 million, rising 11.3% from \$32.7 million recorded at the previous quarter end. Long-term debt (net of current portion) was \$25 million, down 4.9% sequentially.

In the first half of fiscal 2020, the company generated net cash of \$64.6 million from operating activities, up 11.7% from \$57.9 million recorded in the year-ago comparable period. Capital spending totaled \$20.2 million, rising 13.9% year over year.

During the first half of fiscal 2020, the company repurchased shares worth \$9.8 million.

### Outlook

For the third quarter of fiscal 2020 (ending December 2019), RBC Bearings anticipates net sales of \$177-\$179 million, suggesting growth of 3.2-4.4% from the year-ago quarter. Excluding the impact of \$2.5-million sales from Swiss Tool and \$2.9-million sales from the Miami division (sold in the fiscal third quarter), the company expects sales growth of 3.6-4.7%.

It also expects results in the fiscal third quarter to be influenced by lesser shipping and production days (to the extent of four to five days) due to the holiday season.

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## Valuation

RBC Bearings' shares have increased 27.1% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Industrial Products sector have moved up 30.7% and 17.4% over the past year.

The S&P 500 index has moved up 24.2% in the past year.

The stock is currently trading at 30.42x forward 12-month earnings per share, which compares to 21x for the Zacks sub-industry, 18.04x for the Zacks sector and 18.88x 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 25.84x. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$177 price target reflects 31.94x 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	30.42	21	18.04	18.88
	5-Year High	33.62	22.52	19.9	19.34
	5-Year Low	15.93	15.16	12.59	15.17
	5-Year Median	25.84	18.9	16.54	17.44
EV/EBITDA F12M	Current	19.5	12.73	17.8	12.66
	5-Year High	21.07	12.73	18.2	12.66
	5-Year Low	9.42	8.25	10.68	9.08
	5-Year Median	15.69	10.62	14.01	10.78
EV/Sales F12M	Current	5.31	2.76	3.14	3.26
	5-Year High	5.47	2.77	3.14	3.37
	5-Year Low	2.31	1.66	1.76	2.3
	5-Year Median	4.01	2.3	2.28	2.78

As of 01/13/2020

## Industry Analysis Zacks Industry Rank: Bottom 28% (184 out of 254)



## Top Peers

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

Industry Comparison Industry: Manufacturing - General Industrial				Industry Peers		
	ROLL Neutral	X Industry	S&P 500	RBC Neutral	RXN Neutral	TKR Neutral
<b>VGM Score</b>	<b>F</b>	-	-	<b>B</b>	<b>B</b>	<b>A</b>
Market Cap	4.22 B	1.84 B	24.31 B	3.56 B	3.50 B	4.34 B
# of Analysts	4	4	13	3	6	5
Dividend Yield	0.00%	0.00%	1.76%	1.38%	0.00%	1.94%
<b>Value Score</b>	<b>F</b>	-	-	<b>A</b>	<b>A</b>	<b>B</b>
Cash/Price	0.01	0.05	0.04	0.08	0.09	0.04
EV/EBITDA	26.14	13.46	14.12	9.24	11.01	9.56
PEG Ratio	5.60	2.17	2.05	1.52	1.80	1.49
Price/Book (P/B)	4.05	2.50	3.34	1.57	2.65	2.39
Price/Cash Flow (P/CF)	27.85	12.95	13.66	9.24	10.78	9.36
P/E (F1)	32.89	18.61	18.82	15.22	17.00	12.53
Price/Sales (P/S)	5.87	1.40	2.64	1.05	1.71	1.14
Earnings Yield	3.05%	5.32%	5.29%	6.57%	5.90%	7.99%
Debt/Equity	0.05	0.56	0.72	0.54	0.95	0.89
Cash Flow (\$/share)	6.05	2.41	6.94	9.41	3.07	6.16
<b>Growth Score</b>	<b>C</b>	-	-	<b>C</b>	<b>B</b>	<b>A</b>
Hist. EPS Growth (3-5 yrs)	14.48%	5.37%	10.56%	6.08%	4.86%	16.55%
Proj. EPS Growth (F1/F0)	6.46%	7.45%	7.49%	3.46%	5.14%	-2.44%
Curr. Cash Flow Growth	21.08%	16.39%	14.83%	14.06%	34.59%	37.17%
Hist. Cash Flow Growth (3-5 yrs)	14.85%	7.16%	9.00%	4.47%	5.48%	1.58%
Current Ratio	5.14	2.03	1.23	2.83	2.94	2.57
Debt/Capital	4.38%	36.44%	42.99%	35.03%	48.60%	47.22%
Net Margin	15.23%	6.47%	11.08%	7.62%	8.56%	8.11%
Return on Equity	12.61%	13.11%	17.16%	10.14%	19.40%	21.12%
Sales/Assets	0.60	0.82	0.55	0.73	0.63	0.83
Proj. Sales Growth (F1/F0)	4.45%	1.94%	4.23%	-1.71%	0.62%	-0.91%
<b>Momentum Score</b>	<b>F</b>	-	-	<b>F</b>	<b>F</b>	<b>A</b>
Daily Price Chg	2.44%	0.59%	0.73%	1.62%	3.05%	0.54%
1 Week Price Chg	1.43%	-0.27%	0.39%	-0.15%	-2.22%	0.99%
4 Week Price Chg	3.07%	0.00%	1.84%	2.40%	2.32%	3.00%
12 Week Price Chg	3.16%	6.80%	6.48%	18.17%	19.35%	29.36%
52 Week Price Chg	30.21%	14.41%	23.15%	21.74%	37.92%	39.59%
20 Day Average Volume	80,835	53,417	1,578,594	181,774	591,503	472,652
(F1) EPS Est 1 week change	-0.96%	0.00%	0.00%	0.00%	-0.09%	1.66%
(F1) EPS Est 4 week change	-0.95%	0.00%	0.00%	-0.03%	-0.43%	1.28%
(F1) EPS Est 12 week change	-2.45%	-1.04%	-0.48%	-5.24%	-1.19%	-8.84%
(Q1) EPS Est Mthly Chg	-3.73%	0.00%	0.00%	0.00%	-1.17%	0.00%

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## 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.

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### 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	C
Momentum Score	F
VGM Score	F

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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