

RBC Bearings Inc. (ROLL)

\$122.58 (As of 05/25/20)

Price Target (6-12 Months): **\$134.00**

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:C

Value: F

Growth: A

Momentum: B

Summary

RBC Bearings is poised to gain from growth opportunities in the defense business and solid backlog — which stood at \$478.6 million at the end of fiscal 2020. Also, rewards to shareholders and impressive liquidity position might aid. In fourth-quarter fiscal 2020, the company reported in-line earnings results, while its revenues surpassed the consensus estimate by 1.71%. In fiscal 2021, it expects the pandemic to affect its performance. Revenues for the fiscal first quarter are expected to be \$150-\$155 million, suggesting a decline from \$182.7 million in the year-ago quarter. Commercial aerospace (both aftermarket and OEM) will likely face headwinds from reduced air travel and a fall in production rates. Also, industrial businesses will suffer from the pandemic-woes in the first half, while might gain from demand revival in the second half.

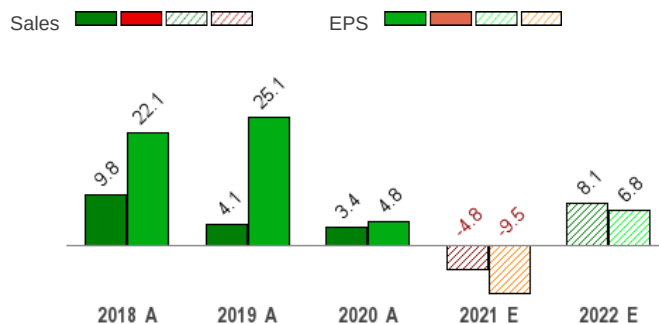
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$185.06 - \$77.77
20 Day Average Volume (sh)	187,848
Market Cap	\$3.2 B
YTD Price Change	-19.1%
Beta	1.25
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Manufacturing - General Industrial
Zacks Industry Rank	Bottom 8% (228 out of 248)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.0%
Last Sales Surprise	1.7%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	NA
Earnings ESP	1.1%
P/E TTM	25.2
P/E F1	26.7
PEG F1	4.6
P/S TTM	4.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022					748 E
2021	153 E	167 E	178 E	184 E	692 E
2020	183 A	182 A	177 A	186 A	727 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022					\$4.90 E
2021	\$0.90 E	\$1.07 E	\$1.20 E	\$1.34 E	\$4.59 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, except sales and EPS estimates, is as of 05/25/2020. The reports text and the analyst-provided sales and EPS estimates are as of 05/26/2020.

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.

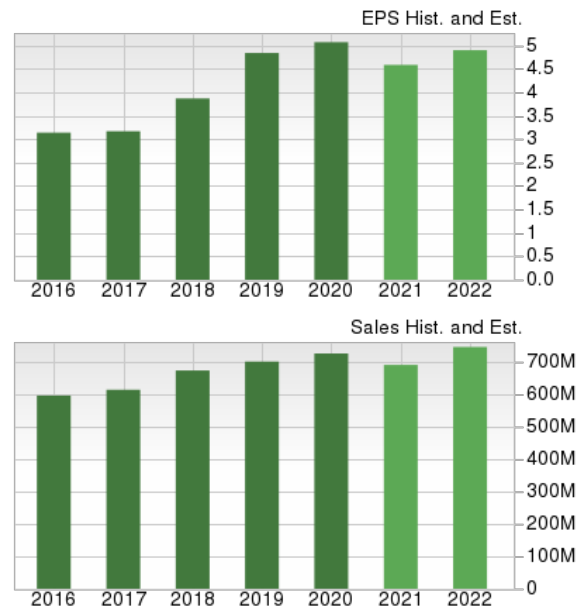
The company sells its products through sales experts and uses product managers, marketing managers, customer service representatives and product application engineers in its selling efforts.

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

- **Plain Bearings** (50.5% of total revenues in the fourth 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** (16.9%): 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** (11.1%): 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** (21.5%): 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 fiscal fourth quarter, RBC Bearings' revenues rose 2% year over year, with organic sales increasing 0.1%. Despite weaknesses in the commercial aerospace business, the company's overall aerospace business reflected a 4.3% increase in revenues on the back of healthy OEM and defense businesses. 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. Moreover, a healthy backlog — which was \$478.6 million at the end of fiscal 2020, reflecting a 7.5% increase from the previous fiscal year — 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 fiscal 2020, the company's cash and cash equivalents were \$103.3 million — reflecting sequential growth of 71.2% — and liquidity under the revolving credit facilities was \$259.1 million. On the other hand, the company's long-term debt was just \$16.6 million, reflecting a sequential increase of 2.4%. The increase in debt is not much of a problem, as healthy liquidity will help the company pay its financial obligations. Its times interest earned have improved from 66.5x at the end of the previous quarter to 82.8x at the end of the fourth quarter. Notably, the company's total-debt to total-capital has declined from 4.6% in the previous quarter to 4.5% in the fourth quarter.
- ▲ RBC Bearings remains committed to rewarding its shareholders handsomely through share buyback programs. Notably, the company repurchased shares worth \$12.2 million in fiscal 2020. In May 2019, its board of directors approved a \$100-million share repurchase plan.

Solid backlog, growth in defense business and rewarding shareholders through share buybacks will favor RBC Bearings, going forward. A healthy liquidity position might help too.

Reasons To Sell:

- ▼ In the past three months, shares of RBC Bearings have moved down 27.6% as compared with the industry's fall of 15.7%. On a P/E (TTM) basis, the company's shares look overvalued compared with the industry, given the respective tallies of 25.21x and 19.1x. Also, its current multiple is higher than the industry's three-month highest level of 21.17x. The company believes that the pandemic will continue to adversely impact its operations in fiscal 2021. Revenues in the first quarter will likely be \$150-\$155 million, suggesting a decline from \$182.7 million reported in the year-ago quarter.
 - ▼ In the fourth quarter, RBC Bearings' industrial sales suffered due to the pandemic, with sales declining 1.9% year over year. Also, Boeing 737 Max-related issues and the pandemic had adverse impacts on the commercial aerospace business. For fiscal 2021, the company believes that commercial aerospace business — including OEM and aftermarket — will face headwinds from alterations in production rates and reduced air travel. Its industrial business too will face adverse impacts of the pandemic in the first half of fiscal 2021.
 - ▼ RBC Bearings is currently dealing with the rising cost of sales. For instance, in the last five fiscal years (2016-2020), the company's cost of sales rose 3% year over year (CAGR). It is worth noting here that the metric totaled \$438.4 million in fiscal 2020, reflecting a year-over-year increase of 2.9%. Also, selling, general and administrative expenses rose 4.3% year over year in fiscal 2020. We believe, if unchecked, higher costs and operating expenses will prove detrimental to the company's margins and profitability.
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Persistence of weakness in industrial and commercial aerospace end markets as well as high costs and operating expenses might continue to hurt RBC Bearings' near-term performances.

Last Earnings Report

RBC Bearings Meets Q4 Earnings Estimates, Gives Bleak View

RBC Bearings reported in-line earnings results for the fourth quarter of fiscal 2020 (ended Mar 28, 2020). However, revenues surpassed the consensus estimate by 1.71%.

The machinery company's adjusted earnings in the reported quarter were \$1.33 per share, in line with the Zacks Consensus Estimate. Also, earnings were in line with the year-ago reported number.

For fiscal 2020, the company's adjusted earnings per share were \$5.07, reflecting growth of 4.8% from the previous year.

Quarter Ending 03/2020

Report Date	May 20, 2020
Sales Surprise	1.71%
EPS Surprise	0.00%
Quarterly EPS	1.33
Annual EPS (TTM)	5.08

Revenue Details

In the quarter under review, RBC Bearings' revenues of \$185.8 million reflected year-over-year growth of 2%. Organic sales in the quarter rose 0.1% year over year.

The company noted that commercial aerospace in the quarter were adversely impacted by the pandemic, while issues with Boeing 737 Max also played spoilsport. Despite this weakness, the company's overall aerospace business experienced a 4.3% increase in revenues. In addition, the company's business in industrial markets suffered due to the pandemic and recorded a 1.9% year-over-year decline in revenues.

Also, revenues surpassed the Zacks Consensus Estimate of \$183 million.

Exiting the reported quarter, the company had backlog of \$478.6 million, up 7.5% year over year.

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

Revenues from **Plain bearings** totaled \$93.9 million, up 6.8% year over year while the same from **Roller bearings** declined 13.2% year over year to \$31.4 million. **Ball bearings'** revenues of \$20.6 million were up 5.9% year over year. Revenues from **Engineered products** summed \$39.9 million, up 3.4% year over year.

For fiscal 2020, the company generated revenues of \$727.5 million, suggesting year-over-year growth of 3.6%.

Margin Profile

In the reported quarter, RBC Bearings' cost of sales inched up 0.1% year over year to \$109.3 million, representing 58.8% of net sales compared with 59.9% a year ago. Adjusted gross profit improved 5.1% year over year to \$76.7 million. Margin inched up 120 basis points (bps) to 41.3%.

Selling, general and administrative expenses of \$31 million were up 5.2% year over year, accounting for 16.7% of net sales. Adjusted operating income grew 4.2% year over year to \$43 million. Adjusted margin inched up 50 bps year over year at 23.1%. Interest expense, net, declined 51.3% year over year to \$399 million in the quarter.

Effective tax rate was 21.4% in the quarter under review compared with 20.8% in the prior-year quarter.

Balance Sheet and Cash Flow

Exiting the fiscal fourth quarter, RBC Bearings had cash and cash equivalents of \$103.3 million, up 71.2% from \$60.3 million recorded at the end of the previous quarter. Long-term debt was \$16.6 million, up 2.4% sequentially.

The company also noted that it has outstanding revolving credit facilities of \$259.1 million.

In fiscal 2020, the company generated net cash of \$155.6 million from operating activities, up 43.4% from \$108.5 million a year ago. Capital spending of \$37.3 million fell 9.8% year over year.

During the fiscal year, the company repurchased shares worth \$12.2 million, up from \$5.2 million in the previous year.

Outlook

For fiscal 2021 (ending March 2021), RBC Bearings expects the pandemic to continue impacting its operations. It believes that commercial aerospace businesses — including OEM and aftermarket — will face headwinds while defense business will grow.

Meanwhile, the industrial businesses will suffer due to the pandemic in the first half of fiscal 2021 (ending September 2021) and demand might pick up thereafter.

For first-quarter fiscal 2020 (ending June 2021), the company predicts revenues of \$150-\$155 million, suggesting a decline from \$182.7 million in the year-ago quarter.

Valuation

RBC Bearings' shares have decreased 19.2% year to date and 13.1% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Industrial Products sector have moved down 20.7% and 19.9% year to date, respectively. Over the past year, the Zacks sub-industry and the sector decreased 10% and 11%, respectively.

The S&P 500 index has moved down 8.1% year to date and increased 4.5% in the past year.

The stock is currently trading at 27.63x forward 12-month earnings per share, which compares to 24.97x for the Zacks sub-industry, 19.68x for the Zacks sector and 21.5x for the S&P 500 index.

Over the past five years, the stock has traded as high as 33.62x and as low as 15.22x, with a 5-year median of 26.15x. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$134 price target reflects 29.01x 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	27.63	24.97	19.68	21.5
	5-Year High	33.62	24.97	19.93	21.5
	5-Year Low	15.22	15.6	12.55	15.23
	5-Year Median	26.15	19.46	16.66	17.49
EV/EBITDA F12M	Current	18.66	16.75	18.2	13.11
	5-Year High	22.2	16.75	18.2	14.17
	5-Year Low	10.12	8.2	10.6	9.02
	5-Year Median	16.45	11.12	14.13	10.86
EV/Sales F12M	Current	5.38	3.4	2.95	3.12
	5-Year High	5.87	3.4	3.13	3.52
	5-Year Low	2.31	1.81	1.76	2.28
	5-Year Median	4.18	2.6	2.31	2.82

As of 05/22/2020

Industry Analysis Zacks Industry Rank: Bottom 8% (228 out of 248)



Top Peers

Company (Ticker)	Rec	Rank
Helios Technologies, Inc (HLIO)	Neutral	3
Kadant Inc (KAI)	Neutral	3
Luxfer Holdings PLC (LXFR)	Neutral	3
Manitex International, Inc. (MNTX)	Neutral	3
Regal Beloit Corporation (RBC)	Neutral	4
Rexnord Corporation (RXN)	Neutral	4
Tennant Company (TNC)	Neutral	5
Timken Company The (TKR)	Underperform	4

Industry Comparison Industry: Manufacturing - General Industrial				Industry Peers		
	ROLL	X Industry	S&P 500	RBC	RXN	TKR
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Underperform
Zacks Rank (Short Term)	4	-	-	4	4	4
VGM Score	C	-	-	B	B	C
Market Cap	3.21 B	1.06 B	20.16 B	3.11 B	3.39 B	3.04 B
# of Analysts	3	3.5	14	5	6	6
Dividend Yield	0.00%	0.00%	2.11%	1.57%	1.13%	2.77%
Value Score	F	-	-	B	C	C
Cash/Price	0.02	0.11	0.07	0.21	0.18	0.14
EV/EBITDA	19.69	10.62	12.07	7.97	10.98	6.39
PEG Ratio	4.80	3.10	2.72	2.07	3.18	5.74
Price/Book (P/B)	2.87	1.52	2.77	1.35	2.58	1.60
Price/Cash Flow (P/CF)	20.25	8.37	10.95	8.57	10.18	5.93
P/E (F1)	28.15	21.66	20.22	20.75	18.96	14.99
Price/Sales (P/S)	4.41	1.00	2.12	1.00	1.64	0.81
Earnings Yield	3.58%	4.26%	4.71%	4.81%	5.26%	6.67%
Debt/Equity	0.04	0.50	0.76	0.62	1.06	0.98
Cash Flow (\$/share)	6.32	2.49	6.96	8.94	2.78	6.83
Growth Score	A	-	-	A	A	C
Hist. EPS Growth (3-5 yrs)	15.01%	11.68%	10.87%	4.97%	7.80%	22.34%
Proj. EPS Growth (F1/F0)	-9.53%	-29.47%	-10.31%	-32.71%	-25.71%	-41.27%
Curr. Cash Flow Growth	5.37%	4.80%	5.46%	-9.82%	5.35%	8.64%
Hist. Cash Flow Growth (3-5 yrs)	14.85%	5.38%	8.55%	1.95%	4.56%	6.82%
Current Ratio	5.90	2.19	1.29	3.16	2.78	2.72
Debt/Capital	3.45%	33.61%	44.54%	38.10%	51.54%	49.42%
Net Margin	17.33%	4.21%	10.54%	6.38%	8.71%	9.40%
Return on Equity	11.93%	10.77%	16.27%	9.49%	18.93%	17.93%
Sales/Assets	0.58	0.75	0.54	0.69	0.61	0.78
Proj. Sales Growth (F1/F0)	-4.85%	-8.98%	-2.49%	-15.82%	-17.51%	-15.31%
Momentum Score	B	-	-	F	D	C
Daily Price Chg	4.48%	0.00%	0.12%	-0.65%	1.14%	0.25%
1 Week Price Chg	-9.98%	-5.26%	-4.56%	-8.02%	-4.35%	-3.86%
4 Week Price Chg	8.12%	3.77%	5.28%	17.17%	15.83%	19.05%
12 Week Price Chg	-27.64%	-17.14%	-8.60%	-3.97%	-5.85%	-9.34%
52 Week Price Chg	-8.77%	-18.00%	-6.15%	2.42%	6.27%	-9.23%
20 Day Average Volume	187,848	83,417	2,645,192	229,818	817,392	624,129
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	4.07%	0.00%
(F1) EPS Est 4 week change	0.00%	-1.91%	-3.80%	-16.54%	-7.63%	-20.97%
(F1) EPS Est 12 week change	-17.61%	-32.04%	-16.57%	-36.24%	-28.83%	-39.29%
(Q1) EPS Est Mthly Chg	0.00%	-17.28%	-7.64%	-26.38%	-7.59%	-53.31%

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	A
Momentum Score	B
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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