

RBC Bearings Inc

3Q24 miss on soft industrials, low 4Q24 outlook

Maintain Rating: BUY | PO: 280.00 USD | Price: 272.93 USD

Industrial softness drives miss

RBC Bearings (RBC) reported 3Q24 adj. EPS of \$1.85, below BofAe of \$2.09 and BBG of \$1.96. The miss was largely due to lower-than-expected revenue and higher SGA expense. Growth in the Aerospace/Defense segment (up 22.5% Y/Y) was partially offset by softness in the Industrial segment (down 0.6%). Profitability decreased Y/Y and fell short of expectations (adj. operating margins of 20.2% vs. BofAe 21.9%). We suspect that this is likely due to RBC's ongoing transformation and new facilities coming online taking longer than expected.

4Q24 outlook misses consensus

The company expects net sales in 4Q24 to be \$405-\$415mn (representing Y/Y growth of 2.7-5.2%). This comes below BBG of \$425mn and BofAe of \$438mn. While we think that the Street may be disappointed by the results, we are interested to hear more clarity about the softness at Industrials, a sentiment that has been echoed across a number of companies that have reported. We maintain our Buy rating.

Exhibit 1: Quick-take of results vs. expectations

Industrial softness drives miss

Quick-take of results vs. expectations:

New Adj. EPS	3Q24: \$1.85 vs. BofAe: \$2.09 vs. BBG: \$1.96 vs. 3Q23: \$1.64
Revenue	3Q24: \$374mn vs. BofAe: \$382mn vs. BBG: \$377mn vs. 3Q23: \$352mn (3Q24 up 6.3% Y/Y)
Adj. Operating Margin	3Q24: 20.2% vs. BofAe: 21.9% vs. 3Q23: 20.4%
FCF	3Q24 Actual: \$90mn vs. BofAe: \$76mn vs. BBG: \$92mn vs. 3Q23: \$54mn (increased 65.6% Y/Y)
Backlog	3Q24: \$652mn vs. 2Q24: \$641mn vs. 3Q23: \$614mn (up 6.3% Y/Y)

Source: BofA Global Research, Bloomberg, Company filings

BofA GLOBAL RESEARCH

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Stock Data

Price	272.93 USD
Price Objective	280.00 USD
Date Established	29-Nov-2023
Investment Opinion	B-1-9
52-Week Range	195.18 USD - 288.16 USD
Mrkt Val (mn) / Shares Out (mn)	6,818 USD / 25.0
Free Float	98.2%
Average Daily Value (mn)	27.78 USD
BofA Ticker / Exchange	RBC / NYS
Bloomberg / Reuters	RBC US / RBC.N
ROE (2024E)	10.0%
Net Dbt to Eqty (Mar-2023A)	52.7%
ESGMeter™	Medium

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BBG: Bloomberg

vs.: versus

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Timestamp: 08 February 2024 09:23AM EST

Price objective basis & risk

RBC Bearings Inc (RBC)

We derive our PO of \$280 using 1.5x relative EV/EBITDA multiple on CY24 estimates. Over the last five years, RBC has traded on average 1.5x the one-year-forward EV/EBITDA multiple. We believe that this multiple fairly reflects the current industrial cycle and recovering aerospace cycle.

Downside risks to our price objective are as follows: 1) Acquisitions are a core part of the company's growth strategy. This is an inherently risky strategy that relies on the availability of attractive acquisition candidates and successful integration. 2) RBC operates in a highly competitive global bearing industry. Some of the company's key competitors are significantly larger or divisions of larger companies. 3) Lower-than-expected build rates at its key aerospace and defense customer Boeing could provide downside to our estimates. 4) US government uncertainty could defer military maintenance and procurement programs.

Upside risks to our price objective are: 1) growth from acquisitions, 2) better-than-expected commercial aerospace growth, 3) improvement in the Industrial end markets, 4) stronger-than-expected execution that would increase gross margins.

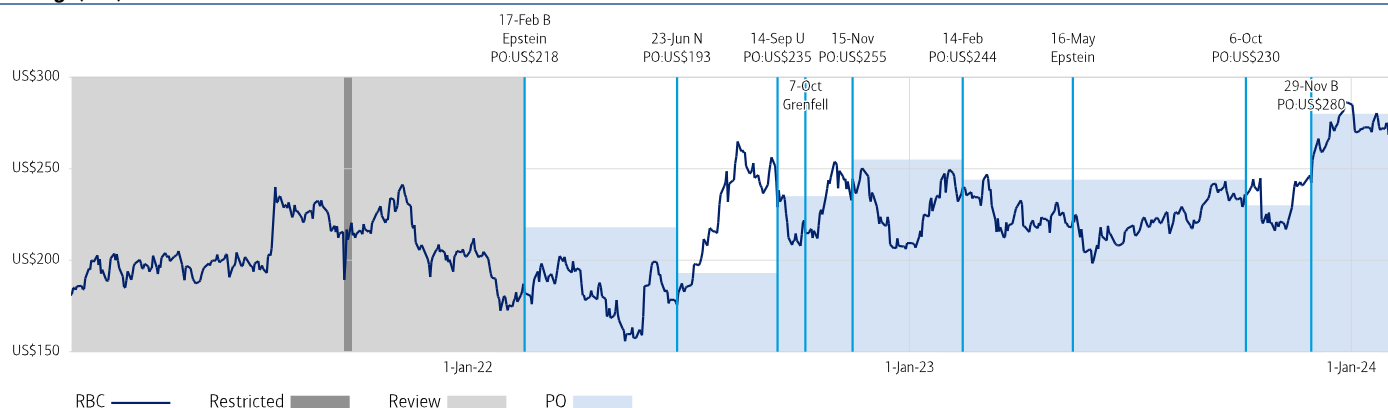
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RBC Bearings (RBC) Price Chart



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Equity Investment Rating Distribution: Aerospace/Defense Electronics Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	31	62.00%	Buy	23	74.19%
Hold	11	22.00%	Hold	9	81.82%
Sell	8	16.00%	Sell	6	75.00%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

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Buy	≥ 10%	≤ 70%
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