

RBC Bearings (NASDAQ: ROLL)

Sector: Industrials



Target Price	Current Price	52 Week High	52 Week Low	P/E	Market Cap.	Dividend Yield	Beta
\$95.74	\$84.76	\$87.82	\$54.38	27.16	\$2.01B	0.00%	1.13

Business Description

RBC Bearings is an international manufacturer and marketer of highly engineered precision bearings and products, which are essential to the manufacture and operation of most machines, aircraft, and mechanical systems. Their four operating segments are Plain Bearings, Roller Bearings, Ball Bearings, and Engineered products, largely serving the aerospace and industrial markets. These products serve to reduce wear on moving parts, facilitate proper power transmission, and reduce damage and energy loss caused by friction or pressure. The aerospace market composes 2/3 of RBC's overall business in net sales. This market includes commercial, private, and military aircraft. It also includes aircraft engines, guided weaponry, vision, and optical systems. RBC is a primary supplier to military contractors for airplanes, helicopters, missile systems, engines and satellites. The industrial market composes the other 1/3 of RBC's overall business in net sales. This market includes construction and mining, oil and natural resource extraction, heavy truck, marine, rail and train, packaging, semiconductor machinery, and the general industrial markets.

Industry Trends

The bearing and engineered products industry is a fragmented multi-billion dollar market that has experienced continued consolidation. With industry wide growth in defense and infrastructure spending, the OEM market will likely observe increased consumer demand. Demand for bearings and precision components in the industrial market rely on growth factors in industrial machinery, construction, mining, and energy. The continued use of existing machinery will also increase demand in the aftermarket for replacement products. Demand for bearings and precision components in the aerospace market rely on growth factors in aircraft build rates, carrier traffic, and the deterioration of existing commercial aircraft fleets. Activity in the defense market has also spurred greater spending on new equipment, and the continued use of deployed equipment which affects demand in the aftermarket for replacement products.

Investment Thesis

RBC's strengths lie in their unique product mix, large number of special government approvals and patents, long standing customer contracts, dependency of consumers on RBC's products, high industry barriers to entry, and projected growth in defense and infrastructure spending. RBC primarily focusses on highly technical and regulated bearing products as well as engineered products. These products require complex design, testing, and manufacturing capabilities that RBC has efficiently developed. RBC's unique expertise and inimitable market positioning has gained them leading positions in many of the product markets in which they compete. The OEM industry has high barriers to entry due to the exclusive customer contracts that are required to serve their sophisticated and demanding consumer base. Aerospace bearing products are designed and certified during the original development of the aircraft being served, which often makes RBC the primary bearing supplier for the life of the aircraft.

5-Year Stock Performance



Competitive Analysis

RBC's competitors include SKF, New Hampshire Ball Bearings, Rexnord, PCC, Arkwin, and Timken. They also compete with other high end industrial suppliers and OEMs across each of their product lines. RBC's competitive advantages are product qualifications, product line breadth, service, quality, and pricing. Although some competitors have greater financial, marketing, and personnel resources than RBC, they are well positioned to compete in each of the markets in which they operate.

Competitive Advantages

RBC's competitive advantages are product qualifications, product line breadth, service, quality, and pricing. In regard to product qualifications, they have received patents and approvals from the OEM, the U.S. Department of Defense, and the Federal Aviation Administration. Credentials have been achieved for over 71,000 items and in many cases, they are the exclusive producer of a product on the market. In regard to product line breadth, RBC helps customers achieve numerous design objectives and aftermarket requirements, striving to be the consumer's "one stop" supplier. In regard to service, RBC products are essential to the construction or operation of machinery. Inventory is maintained for immediate sale or service of popular items, and the company has made several strategic acquisitions to fulfill all of product and service requirements of their consumers. RBC is priced competitively and maximize operating efficiencies to reduce costs. They have also have exhibited financial flexibility through past elimination of unprofitable product lines in order to maximize profit margins.

Risks

RBC's main risk factors are competition, loss of customers, cyclical nature of the business, potential changes in government spending, fluctuating commodity prices, and any stunting of inorganic growth potential. To mitigate cyclical nature, RBC enters into sole-source relationships and long-term purchase agreements, as well as diversifying across multiple market segments in the aerospace and industrial segments. Commodity risk is often mitigated by passing cost increases to consumer, by expanding vendor networks, and adjusting purchasing patterns accordingly. The effects of these risks have been largely muted of the long term and overcome by the RBC's unique business model and strengths.

Corporate Social Responsibility

Governance Disclosure Score: 48.21 (Industry average: 54.47)
Percent Independent Directors: 75.00 % (Industry average: 74.62%)
Compliant with "Environmental Response, Compensation, and Liability Act"
Compliant with Consumer Protection Act Conflict Mineral Provision

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Sources: Bloomberg, 2016 ROLL Annual Report

Valuation Assumptions

WACC: 6.75%
Terminal FCF Growth Rate: 3.5%
DCF Stock Price: \$104.69
Multiples Stock Price: \$86.79
Weighted 50/50

Key Financials

ROA: 9.30% (Industry 3.53%)
ROE: 10.71% (Industry 9.27%)
D/E: 1.67% (Industry 43.94%)
Operating Income Margin: 19.86% (Industry 8.72%)

