



The Gorman-Rupp Company (GRC)

Updated May 11th, 2020 by Josh Arnold

Key Metrics

Current Price:	\$29	5 Year CAGR Estimate:	5.9%	Market Cap:	\$757M
Fair Value Price:	\$24	5 Year Growth Estimate:	8.0%	Ex-Dividend Date:	05/14/20
% Fair Value:	120%	5 Year Valuation Multiple Estimate:	-3.6%	Dividend Payment Date:	06/10/20
Dividend Yield:	2.0%	5 Year Price Target	\$36	Years Of Dividend Growth:	47
Dividend Risk Score:	A	Retirement Suitability Score:	B	Last Dividend Increase:	7.4%

Overview & Current Events

Gorman-Rupp began manufacturing pumps and pumping systems back in 1933. Since that time, it has grown into an industry leader with annual sales of about \$400 million and a market capitalization of \$757 million. Today, Gorman-Rupp is a focused, niche manufacturer of critical systems that many industrial clients rely upon for their own success. Gorman-Rupp generates about one-third of its total revenue from outside of the US. The company also has one of the most impressive dividend increase streaks in the market, which currently stands at 47 years.

Gorman-Rupp reported first quarter earnings on April 23rd with results missing expectations on the top and bottom lines. Net sales were \$92 million in Q1, down from \$97 million in the year-ago period. The -5.4% decline was due to a -3.4% fall in the US and a -9.8% decrease in the international business. Water market sales declined -5.6% while non-water markets revenue declined -4.9%, so weakness was broad-based. International sales made up 29% of total revenue in Q1, down from 30% in the year-ago period.

Gross profit was \$23.4 million during the quarter, resulting in gross margin of 25.6%. The company reported \$23.3 million in gross profit in last year's Q1 and 24.1% gross margin. The 150bps improvement was due to lower material costs and selling price increases year-over-year, somewhat offset by deleveraging fixed costs of labor and overhead.

SG&A costs were \$15 million, or 16.2% of sales, up from \$14.4 million and 14.8%, respectively, a year ago. Operating income was \$8.6 million in Q1 on margin of 9.4%, compared to \$9.0 million and 9.2% a year ago.

Earnings were \$5.5 million, down from \$7.2 million year-over-year, with per-share values coming in at \$0.21 and \$0.28, respectively. New orders were also weak in Q1 so we think Gorman-Rupp will struggle somewhat for the rest of the year. We've reduced our estimate of earnings-per-share to \$1.10 as a result but expect a fairly swift rebound into 2021.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	\$0.93	\$1.10	\$1.07	\$1.15	\$1.38	\$1.06	\$0.95	\$1.22	\$1.53	\$1.37	\$1.10	\$1.62
DPS	\$0.27	\$0.27	\$0.31	\$0.33	\$0.37	\$0.41	\$0.43	\$0.47	\$0.51	\$0.55	\$0.58	\$0.66
Shares¹	26	26	26	26	26	26	26	26	26	26	26	26

Gorman-Rupp's earnings volatility has been very high, and that has translated into lots of volatility for the stock in the past decade. As the company makes products for industrial and municipal clients, its revenue can swing wildly from one year to another. Margins have been fairly stable over the past decade, but it does experience boom/bust cycles in revenue generation, leading to lots of earnings volatility, as was the case in 2019 following a strong performance in 2018. We are forecasting 8% earnings-per-share growth going forward from this year's trough but note that recent weakness continues to suggest further volatility in earnings moving forward.

The company can achieve this result mostly through low single-digit sales growth. Management correctly forecast higher sales in 2018 and 2019 and given its robust backlog of uncompleted work, we see that continuing for the near term.

¹ Share count in millions

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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Gorman-Rupp's primary earnings growth driver is certainly revenue as its margins fluctuate over time, even when sales rise. The company managed strong profits in Q1 this year despite lower revenue, highlighting margin volatility.

We are forecasting mid-single-digit growth in the dividend as Gorman-Rupp's increases have been lumpy in the past but have picked up in terms of significance lately. This is not a stock one buys for dividend growth or current yield, however.

Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2024
Avg. P/E	19.1	21.4	21.5	23.5	23.1	25.8	28.4	24.7	21.6	24.5	26.4	22.0
Avg. Yld.	1.5%	1.1%	1.4%	1.2%	1.2%	1.5%	1.6%	1.6%	1.5%	1.6%	2.0%	1.8%

Gorman-Rupp's price-to-earnings multiple stayed in a fairly narrow range from 2008 to 2014, but in more recent years, investors have been willing to pay more. Shares trade at 26.4 times earnings today, which is in excess of our fair value estimate of 22 times earnings, so we are forecasting a modest headwind to total returns from the valuation in the coming years. The yield should also remain near 2%; Gorman-Rupp did pay a \$2 special dividend in Q4 of 2018.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	29%	26%	29%	29%	27%	38%	45%	39%	33%	40%	53%	41%

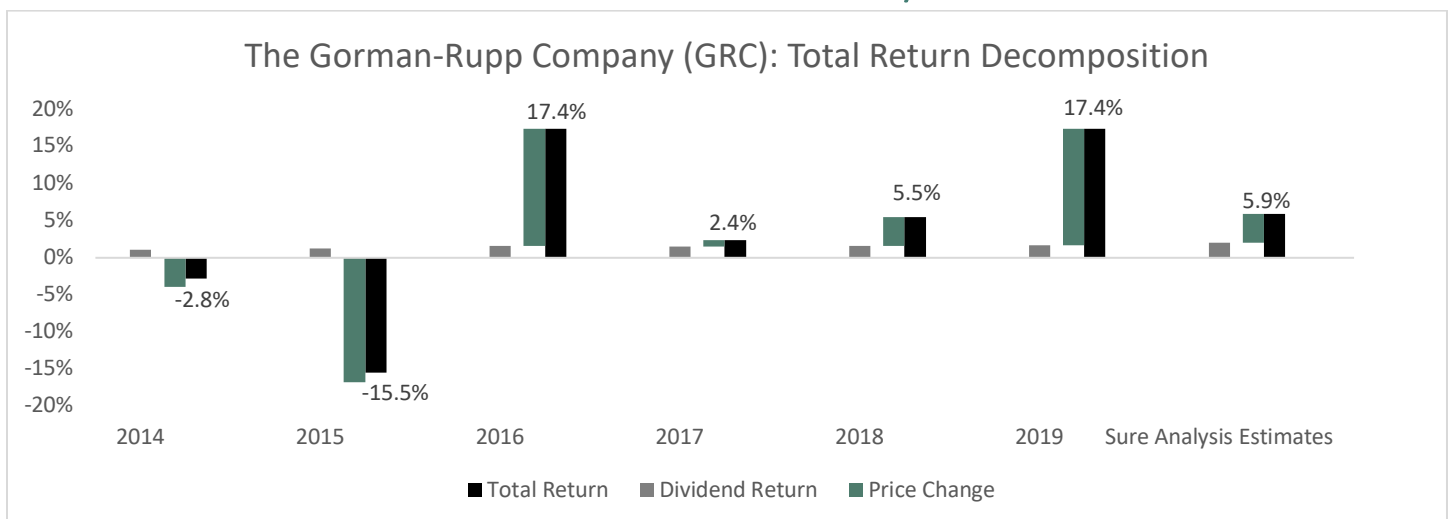
Gorman-Rupp's payout ratio is less than half of earnings and should remain there for the foreseeable future as we anticipate moderate dividend growth over the intermediate term.

The company's competitive advantage is in its many decades of experience in providing innovative solutions for niche, but critical, engineering problems facing its customers. However, it is far from immune to recessions as revenue and earnings both fell very sharply during the Great Recession. We see earnings as at-risk for this recession, as noted above.

Final Thoughts & Recommendation

Gorman-Rupp is trading at 120% of our estimate of fair value following the Q1 report. The company's moderate level of earnings growth could afford investors ~6% annual returns as the valuation has improved since our last report. As a result, we're upgrading Gorman-Rupp from sell to hold, but note that investors are likely to experience significant volatility in earnings in the coming years.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	297	359	376	392	435	406	382	379	414	398
Gross Profit	76	88	90	94	108	93	93	101	110	103
Gross Margin	25.7%	24.4%	24.0%	23.9%	24.7%	22.8%	24.2%	26.7%	26.5%	25.8%
SG&A Exp.	37	45	48	52	54	56	54	55	59	59
D&A Exp.	11	11	12	14	15	15	16	15	14	14
Operating Profit	39	43	42	42	53	36	38	46	51	44
Operating Margin	13.1%	12.0%	11.2%	10.7%	12.3%	9.0%	10.0%	12.1%	12.2%	11.0%
Net Profit	26	29	28	30	36	25	25	27	40	36
Net Margin	8.7%	8.0%	7.5%	7.7%	8.3%	6.2%	6.5%	7.0%	9.6%	9.0%
Free Cash Flow	20	10	16	29	16	32	47	36	30	51
Income Tax	12	14	14	14	18	12	12	13	10	9

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	287	299	335	356	381	364	383	395	368	383
Cash & Equivalents	32	20	20	31	24	24	58	80	46	81
Accounts Receivable	52	56	59	59	71	77	71	67	68	65
Inventories	51	73	91	90	95	83	69	75	87	76
Goodwill & Int. Ass.	26	25	32	32	40	41	43	38	36	35
Total Liabilities	87	84	100	91	99	77	80	70	75	75
Accounts Payable	12	16	15	18	18	15	16	16	17	16
Long-Term Debt	25	10	22	9	12	-	-	-	-	-
Shareholder's Equity	200	215	235	264	282	287	303	325	293	308
D/E Ratio	0.13	0.05	0.09	0.03	0.04	-	-	-	-	-

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	9.7%	9.8%	8.9%	8.7%	9.8%	6.7%	6.7%	6.8%	10.5%	9.5%
Return on Equity	13.8%	13.9%	12.5%	12.1%	13.2%	8.8%	8.4%	8.5%	12.9%	11.9%
ROIC	12.4%	12.8%	11.7%	11.4%	12.7%	8.6%	8.4%	8.5%	12.9%	11.9%
Shares Out.	26	26	26	26	26	26	26	26	26	26
Revenue/Share	11.36	13.70	14.32	14.92	16.56	15.51	14.65	14.54	15.87	15.23
FCF/Share	0.78	0.38	0.62	1.12	0.60	1.24	1.78	1.36	1.16	1.96

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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