



The Gorman-Rupp Company (GRC)

Updated October 30th, 2021, by Josh Arnold

Key Metrics

| | | | | | |
|-----------------------------|------|--|-------|----------------------------------|----------|
| Current Price: | \$43 | 5 Year CAGR Estimate: | 2.0% | Market Cap: | \$1.1 B |
| Fair Value Price: | \$33 | 5 Year Growth Estimate: | 6.0% | Ex-Dividend Date: | 11/12/21 |
| % Fair Value: | 132% | 5 Year Valuation Multiple Estimate: | -5.4% | Dividend Payment Date: | 12/10/21 |
| Dividend Yield: | 1.6% | 5 Year Price Target | \$43 | Years Of Dividend Growth: | 49 |
| Dividend Risk Score: | A | Retirement Suitability Score: | B | Last Dividend Increase: | 9.7% |

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 \$380 million and a market capitalization of \$1.1 billion. 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 U.S. The company also has one of the most impressive dividend increase streaks in the market, which currently stands at 49 years.

Gorman-Rupp reported third quarter earnings on October 29th, 2021, and results were very strong for both revenue and profits. Total sales were \$102 million, up from \$89 million in the year-ago period, a gain of nearly 15%. Domestic sales were up 8.6%, or \$5.4 million, while international sales were 30% higher. The company also noted a continued recovery from pandemic conditions, meaning improving order volumes in most of its markets.

Water market sales were up 15%, with gains in all its lines of business apart from the municipal business. The company noted the municipal business weakness was due to timing of orders, and it continues to see a strong backlog for that business as well. Non-water market sales were up 15%, with most of that gain accruing from the OEM market.

Gross profit came to \$25.8 million, or 25.3% of revenue, which compared to \$23 million and 25.8%, respectively, in the year-ago period. The decline in gross margin was driven by a 210 bps increase in the cost of material, including a 250 bps unfavorable inventory adjustment, which was partially offset by a 160 bps improvement in labor and overhead that resulted from higher sales volumes.

Operating income was \$11.5 million, or 11.3% of revenue, up from \$9.7 million and 10.9% year-over-year, respectively. Net income was \$8.8 million, up from \$7.3 million, and on a per-share basis, rose from 28 cents to 34 cents. We've left our estimate of earnings-per-share for this year unchanged following Q3 results.

Growth on a Per-Share Basis

| Year | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2026 |
|---------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------------|---------------|
| EPS | \$1.10 | \$1.07 | \$1.15 | \$1.38 | \$1.06 | \$0.95 | \$1.22 | \$1.53 | \$1.37 | \$1.11 | \$1.30 | \$1.74 |
| DPS | \$0.27 | \$0.31 | \$0.33 | \$0.37 | \$0.41 | \$0.43 | \$0.47 | \$0.51 | \$0.55 | \$0.59 | \$0.68 | \$0.87 |
| 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 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 and 2020 following a strong performance in 2018. We are forecasting 6% earnings-per-share growth going forward from our earnings estimate but note that recent weakness continues to suggest further volatility moving forward.

The company can achieve this result mostly through low single-digit sales growth. Given the company's robust backlog of uncompleted work, we see revenue growth continuing for the near term once COVID headwinds have passed, which the company appears to be in the midst of following Q3 results. Gorman-Rupp's primary earnings growth driver is

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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certainly revenue as its margins fluctuate over time, and Gorman-Rupp is focusing on cost containment efforts to help combat this while it waits for revenue to rise. We saw that effort bear some fruit in Q3.

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 solely for the current yield, however.

Valuation Analysis

| Year | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | Now | 2026 |
|-----------|------|------|------|------|------|------|------|------|------|------|------|------|
| Avg. P/E | 21.4 | 21.5 | 23.5 | 23.1 | 25.8 | 28.4 | 24.7 | 21.6 | 24.5 | 28.8 | 33.1 | 25.0 |
| Avg. Yld. | 1.1% | 1.4% | 1.2% | 1.2% | 1.5% | 1.6% | 1.6% | 1.5% | 1.6% | 1.8% | 1.6% | 2.0% |

Gorman-Rupp's price-to-earnings multiple stayed in a narrow range from 2008 to 2014, but in more recent years, investors have been willing to pay more. Shares trade at 33.1 times our earnings estimate, which is in excess of our fair value estimate of 25 times earnings. As such we are forecasting a 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 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2026 |
|--------|------|------|------|------|------|------|------|------|------|------|------|------|
| Payout | 26% | 29% | 29% | 27% | 38% | 45% | 39% | 33% | 40% | 53% | 52% | 50% |

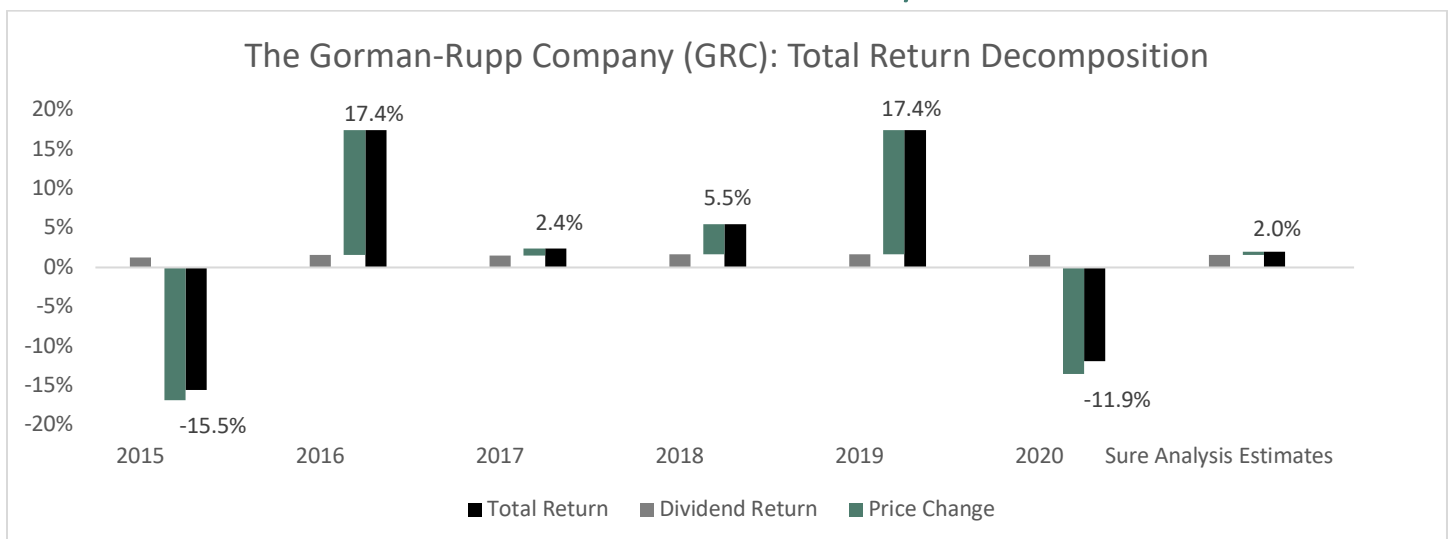
Gorman-Rupp's payout ratio is around half of earnings and should remain there for the foreseeable future as we anticipate moderate dividend growth over the intermediate term.

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. Depressed earnings for 2020 came to fruition; we continue to expect a decent rebound for 2021.

Final Thoughts & Recommendation

Gorman-Rupp is trading at 132% of our estimate of fair value following the Q3 report. The company's moderate level of earnings growth could afford investors 2% annual returns. However, given that investors are likely to experience significant volatility in earnings in the coming years, we reiterate the stock at a sell rating at current prices.

Total Return Breakdown by Year



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Income Statement Metrics

| Year | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Revenue | 359 | 376 | 392 | 435 | 406 | 382 | 379 | 414 | 398 | 349 |
| Gross Profit | 88 | 90 | 94 | 108 | 93 | 93 | 101 | 110 | 103 | 90 |
| Gross Margin | 24.4% | 24.0% | 23.9% | 24.7% | 22.8% | 24.2% | 26.7% | 26.5% | 25.8% | 25.7% |
| SG&A Exp. | 45 | 48 | 52 | 54 | 56 | 54 | 55 | 59 | 59 | 54 |
| D&A Exp. | 11 | 12 | 14 | 15 | 15 | 16 | 15 | 14 | 14 | --- |
| Operating Profit | 43 | 42 | 42 | 53 | 36 | 38 | 46 | 51 | 44 | 36 |
| Operating Margin | 12.0% | 11.2% | 10.7% | 12.3% | 9.0% | 10.0% | 12.1% | 12.2% | 11.0% | 10.2% |
| Net Profit | 29 | 28 | 30 | 36 | 25 | 25 | 27 | 40 | 36 | 25 |
| Net Margin | 8.0% | 7.5% | 7.7% | 8.3% | 6.2% | 6.5% | 7.0% | 9.6% | 9.0% | 7.2% |
| Free Cash Flow | 10 | 16 | 29 | 16 | 32 | 47 | 36 | 30 | 51 | --- |
| Income Tax | 14 | 14 | 14 | 18 | 12 | 12 | 13 | 10 | 9 | 6 |

Balance Sheet Metrics

| Year | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|----------------------|------|------|------|------|------|------|------|------|------|------|
| Total Assets | 299 | 335 | 356 | 381 | 364 | 383 | 395 | 368 | 383 | 394 |
| Cash & Equivalents | 20 | 20 | 31 | 24 | 24 | 58 | 80 | 46 | 81 | 108 |
| Accounts Receivable | 56 | 59 | 59 | 71 | 77 | 71 | 67 | 68 | 65 | 51 |
| Inventories | 73 | 91 | 90 | 95 | 83 | 69 | 75 | 87 | 76 | 83 |
| Goodwill & Int. Ass. | 25 | 32 | 32 | 40 | 41 | 43 | 38 | 36 | 35 | 34 |
| Total Liabilities | 84 | 100 | 91 | 99 | 77 | 80 | 70 | 75 | 75 | 79 |
| Accounts Payable | 16 | 15 | 18 | 18 | 15 | 16 | 16 | 17 | 16 | 9 |
| Long-Term Debt | 10 | 22 | 9 | 12 | --- | --- | --- | --- | --- | --- |
| Shareholder's Equity | 215 | 235 | 264 | 282 | 287 | 303 | 325 | 293 | 308 | 316 |
| D/E Ratio | 0.05 | 0.09 | 0.03 | 0.04 | --- | --- | --- | --- | --- | --- |

Profitability & Per Share Metrics

| Year | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Return on Assets | 9.8% | 8.9% | 8.7% | 9.8% | 6.7% | 6.7% | 6.8% | 10.5% | 9.5% | 6.5% |
| Return on Equity | 13.9% | 12.5% | 12.1% | 13.2% | 8.8% | 8.4% | 8.5% | 12.9% | 11.9% | 8.1% |
| ROIC | 12.8% | 11.7% | 11.4% | 12.7% | 8.6% | 8.4% | 8.5% | 12.9% | 11.9% | 8.1% |
| Shares Out. | 26 | 26 | 26 | 26 | 26 | 26 | 26 | 26 | 26 | 26 |
| Revenue/Share | 13.70 | 14.32 | 14.92 | 16.56 | 15.51 | 14.65 | 14.54 | 15.87 | 15.23 | 13.44 |
| FCF/Share | 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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