



# The Gorman-Rupp Company (GRC)

Updated August 5<sup>th</sup>, 2024, by Josh Arnold

## Key Metrics

<b>Current Price:</b>	\$37	<b>5 Year CAGR Estimate:</b>	11.5%	<b>Market Cap:</b>	\$1,002 M
<b>Fair Value Price:</b>	\$43	<b>5 Year Growth Estimate:</b>	7.0%	<b>Ex-Dividend Date:</b>	08/15/24
<b>% Fair Value:</b>	87%	<b>5 Year Valuation Multiple Estimate:</b>	2.8%	<b>Dividend Payment Date:</b>	09/10/24
<b>Dividend Yield:</b>	1.9%	<b>5 Year Price Target</b>	\$60	<b>Years Of Dividend Growth:</b>	51
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	B	<b>Rating:</b>	Buy

## 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 nearly \$700 million and a market capitalization of \$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 51 years. That makes Gorman-Rupp a member of the prestigious Dividend Kings.

Gorman posted second quarter earnings on July 26<sup>th</sup>, 2024, and results were somewhat weak. The company saw revenue come to \$169.5 million, which was off about 1% year-over-year. The decline in sales was due to a decline in volume, partially offset by the impact of pricing increases taken in the first quarter.

The company's gross profit was \$54 million, resulting in gross margin of 31.9% of revenue, which were improvements from \$51.7 million and 30.2%, respectively, a year ago. The gross margin increase was due to a 280 basis point improvement in cost of material, most of which was from higher selling prices. These were partially offset by a 110 basis point deterioration in labor and overhead expenses.

Operating income was \$26 million, or 15.4% of revenue, both of which were higher year-over-year. Operating income totaled \$24.3 million and 14.2% of revenue, respectively, a year ago.

Adjusted EBITDA was \$35 million, or 20.8% of sales, up from \$33.7 million and 19.7%, respectively, a year ago. We now see \$1.85 in adjusted earnings-per-share for this year after first half results.

## Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
<b>EPS</b>	\$1.38	\$1.06	\$0.95	\$1.22	\$1.53	\$1.37	\$1.11	\$1.32	\$0.94	\$1.37	<b>\$1.85</b>	<b>\$2.59</b>
<b>DPS</b>	\$0.37	\$0.41	\$0.43	\$0.47	\$0.51	\$0.55	\$0.59	\$0.65	\$0.69	\$0.71	<b>\$0.72</b>	<b>\$0.92</b>
<b>Shares<sup>1</sup></b>	26	26	26	26	26	26	26	26	26	26	<b>26</b>	<b>26</b>

Gorman-Rupp's earnings volatility has been very high, and that has translated into a lot 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 7% earnings-per-share growth going forward from our earnings estimate but note that recent weakness continues to suggest further volatility moving forward, particularly given current inflationary and supply chain challenges. We have reduced our growth estimate because of a higher earnings base for 2024; we believe some of the outsized growth we were looking for has now materialized.

The company can achieve this result mostly through high single-digit sales growth. Given the company's robust backlog of uncompleted work, we see revenue growth continuing for the near term, which the company says continues to occur. Gorman-Rupp's primary earnings growth driver is certainly revenue as its margins fluctuate over time, and Gorman-

<sup>1</sup> Share count in millions

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Rupp is focusing on cost containment efforts to help combat this while it waits for revenue to rise. The company is seeing higher margins so far in 2024.

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.

## Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	23.1	25.8	28.4	24.7	21.6	24.5	28.8	27.7	27.3	25.9	<b>20.0</b>	<b>23.0</b>
Avg. Yld.	1.2%	1.5%	1.6%	1.6%	1.5%	1.6%	1.8%	1.8%	2.7%	2.0%	<b>1.9%</b>	<b>1.5%</b>

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 20 times our earnings estimate, which is below our estimate of 23 times earnings. As such we are forecasting a sizable positive impact on total returns from the valuation in the coming years. The yield could also decline over time.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	27%	38%	45%	39%	33%	40%	53%	49%	73%	52%	<b>39%</b>	<b>35%</b>

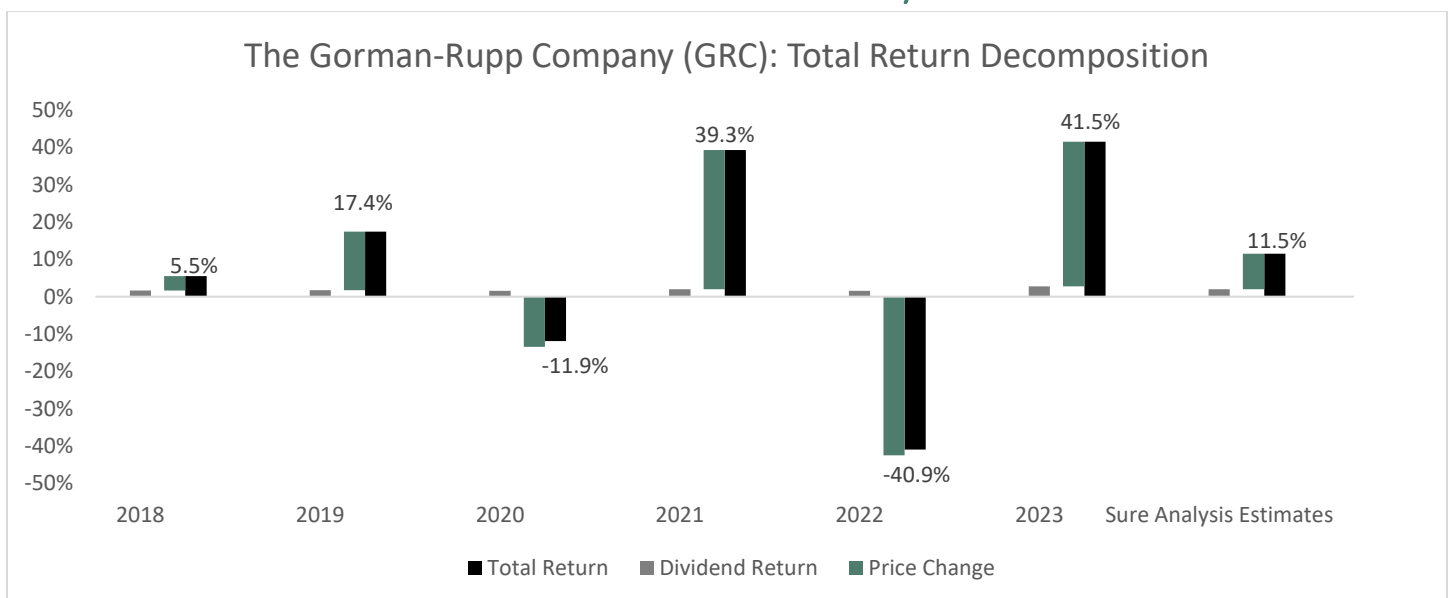
Gorman-Rupp's payout ratio is 39% of earnings for this year following the most recent increase in the dividend, but also higher earnings estimates. We see it declining in the years to come as earnings rebound.

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.

## Final Thoughts & Recommendation

Gorman-Rupp is trading at 87% of our estimate of fair value following the Q2 report. The company's level of earnings growth could afford investors 11.5% annual returns in conjunction with the 1.9% yield, aided by a 2.8% potential valuation tailwind. We are reiterating the stock at a buy rating after Q2 results, despite the fact that projected returns are now meaningfully lower from our last report.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Revenue</b>	435	406	382	379	414	398	349	378	521	660
<b>Gross Profit</b>	108	93	93	101	110	103	90	96	131	196
<b>Gross Margin</b>	24.7%	22.8%	24.2%	26.7%	26.5%	25.8%	25.7%	25.3%	25.1%	29.8%
<b>SG&amp;A Exp.</b>	54	56	54	55	59	59	54	57	83	97
<b>D&amp;A Exp.</b>	15	15	16	15	14	14	13	12	21	28
<b>Operating Profit</b>	53	36	38	46	51	44	36	39	40	87
<b>Operating Margin</b>	12.3%	9.0%	10.0%	12.1%	12.2%	11.0%	10.2%	10.4%	7.7%	13.2%
<b>Net Profit</b>	36	25	25	27	40	36	25	30	11	35
<b>Net Margin</b>	8.3%	6.2%	6.5%	7.0%	9.6%	9.0%	7.2%	7.9%	2.1%	5.3%
<b>Free Cash Flow</b>	16	32	47	36	30	51	43	36	(4)	77
<b>Income Tax</b>	18	12	12	13	10	9	6	7	3	9

## Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Total Assets</b>	381	364	383	395	368	383	394	421	873	890
<b>Cash &amp; Equivalents</b>	24	24	58	80	46	81	108	125	7	31
<b>Accounts Receivable</b>	71	77	71	67	68	65	51	59	93	90
<b>Inventories</b>	95	83	69	75	87	76	83	86	111	104
<b>Goodwill &amp; Int. Ass.</b>	40	41	43	38	36	35	34	33	507	495
<b>Total Liabilities</b>	99	77	80	70	75	75	79	91	542	541
<b>Accounts Payable</b>	18	15	16	16	17	16	9	18	25	23
<b>Long-Term Debt</b>	12	---	---	---	---	---	---	---	437	404
<b>Shareholder's Equity</b>	282	287	303	325	293	308	316	330	331	349
<b>LTD/E Ratio</b>	0.04	---	---	---	---	---	---	---	1.32	1.16

## Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Return on Assets</b>	9.8%	6.7%	6.7%	6.8%	10.5%	9.5%	6.5%	7.3%	1.7%	4.0%
<b>Return on Equity</b>	13.2%	8.8%	8.4%	8.5%	12.9%	11.9%	8.1%	9.2%	3.4%	10.3%
<b>ROIC</b>	12.7%	8.6%	8.4%	8.5%	12.9%	11.9%	8.1%	9.2%	2.0%	4.6%
<b>Shares Out.</b>	26	26	26	26	26	26	26	26	26	26
<b>Revenue/Share</b>	16.56	15.51	14.65	14.54	15.87	15.23	13.44	14.45	19.97	25.29
<b>FCF/Share</b>	0.60	1.24	1.78	1.36	1.16	1.96	1.65	1.37	(0.16)	2.97

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

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