



NEWS RELEASE

Regal Beloit Corporation Announces Second Quarter 2014 Financial Results

7/29/2014

- Sales up 3.5%
- Earnings Per Share up 9.7%, in Line with Guidance
- Strong Free Cash Flow

BELOIT, Wis., July 29, 2014 /PRNewswire/ -- Regal Beloit Corporation (NYSE: RBC) today reported financial results for the second quarter 2014. Net sales for the second quarter 2014 were \$850.4 million compared to \$822.0 million for the second quarter 2013. Net income for the second quarter 2014 was \$56.2 million compared to \$51.1 million for the second quarter 2013. Diluted earnings per share for the second quarter 2014 were \$1.24 compared to \$1.13 for the second quarter 2013. Adjusted diluted earnings per share were \$1.27 for the second quarter 2014 compared to \$1.13 for the second quarter 2013.

"Regal had solid results in the second quarter driven by growth in our residential HVAC, European, global power generation and mechanical businesses as well as overall operational improvements in key businesses," said Regal Chairman and CEO Mark Gliebe. "During the quarter, we announced further plans to simplify our manufacturing footprint and we announced the acquisition of Benshaw, a manufacturer of motor starters and custom drives. Benshaw is a good fit with our C&I and Unico businesses and represents our continuing efforts to be a consistent and successful acquirer."

ADJUSTED DILUTED EARNINGS PER SHARE*

	Three Months Ended		Six Months Ended	
	Jun 28, 2014	Jun 29, 2013	Jun 28, 2014	Jun 29, 2013
GAAP Diluted Earnings Per Share	\$ 1.24	\$ 1.13	\$ 2.20	\$ 2.22
Restructuring Costs	0.05	0.02	0.11	0.03
Purchase Accounting And Transaction Costs	0.01	—	0.03	—
Tax Benefit Recorded Attributable to Prior Year	—	(0.02)	—	(0.04)
Gain on Disposal of Real Estate	(0.03)	—	(0.03)	—
Adjusted Diluted Earnings Per Share	\$ 1.27	\$ 1.13	\$ 2.31	\$ 2.21

*This earnings release includes non-GAAP financial measures. Schedules that reconcile these non-GAAP financial measures to the most comparable GAAP figures are included with this earnings release.

NET SALES

	(Dollars In Millions)					
	Three Months Ended			Six Months Ended		
	Jun 28, 2014	Jun 29, 2013	% Change	Jun 28, 2014	Jun 29, 2013	% Change
Net Sales	\$ 850.4	\$ 822.0	3.5 %	\$ 1,651.6	\$ 1,600.2	3.2 %
Net Sales by Segment:						
Electrical segment	780.9	753.3	3.7 %	1,517.7	1,464.3	3.6 %
Mechanical segment	69.5	68.7	1.2 %	133.9	135.9	(1.5) %

Electrical segment net sales in the second quarter 2014 included \$31.8 million from businesses acquired within the last year. North American residential HVAC net sales increased 3.3% for the second quarter 2014 compared to the second quarter 2013. North American commercial and industrial motor net sales decreased 2.7% for the second quarter 2014 compared to the second quarter 2013. The decrease was primarily driven by weaker demand from both commercial and industrial refrigeration as well as irrigation.

Mechanical segment net sales in North America increased 2.6% for the second quarter 2014 compared to the second quarter 2013, with growth in a number of businesses including Milwaukee Gear.

Foreign currency exchange rates negatively impacted total net sales by 0.4% for the second quarter 2014

compared to the second quarter 2013, excluding the businesses acquired within the last year. In the second quarter 2014, sales of high efficiency products increased 4.4% and represented 20.0% of total net sales.

Excluding the impact of the businesses acquired in the last twelve months, net sales to regions outside the United States decreased 0.8% compared to second quarter 2013, and represented 33.6% of net sales. Foreign currency exchange rates negatively impacted international sales by 1.2% for the second quarter 2014 compared to the second quarter 2013.

GROSS PROFIT

(Dollars in Millions)

	Three Months Ended		Six Months Ended	
	Jun 28, 2014	Jun 29, 2013	Jun 28, 2014	Jun 29, 2013
Gross Profit	\$ 211.0	\$ 209.2	\$ 405.4	\$ 408.7
As a percentage of net sales	24.8 %	25.5 %	24.5 %	25.5 %
Gross Profit				
Electrical segment	\$ 193.3	\$ 191.5	\$ 371.6	\$ 372.8
As a percentage of net sales	24.8 %	25.4 %	24.5 %	25.5 %
Mechanical segment	\$ 17.7	\$ 17.7	\$ 33.8	\$ 35.9
As a percentage of net sales	25.5 %	25.8 %	25.2 %	26.4 %

Electrical segment gross profit for the second quarter 2014 included \$3.3 million of restructuring expenses and \$0.3 million of purchase accounting adjustments from the acquired businesses. Second quarter 2013 Electrical segment gross profit included \$1.0 million of restructuring expenses as well as \$3.6 million higher inventory costs due to the Venezuelan currency devaluation, partially offset by a LIFO benefit of \$2.1 million resulting from lower commodity costs.

OPERATING EXPENSES

(Dollars in Millions)

	Three Months Ended		Six Months Ended	
	Jun 28, 2014	Jun 29, 2013	Jun 28, 2014	Jun 29, 2013
Operating Expenses	\$ 123.3	\$ 128.1	\$ 248.0	\$ 251.7
As a percentage of net sales	14.5 %	15.6 %	15.0 %	15.7 %
Operating Expenses by Segment				
Electrical segment	\$ 113.8	\$ 118.8	\$ 229.3	\$ 232.8
As a percentage of net sales	14.6 %	15.8 %	15.1 %	15.9 %
Mechanical segment	\$ 9.5	\$ 9.3	\$ 18.7	\$ 18.9
As a percentage of net sales	13.7 %	13.5 %	14.0 %	13.9 %

For the second quarter 2014, Electrical segment operating expenses included (i) an incremental \$5.0 million from the businesses acquired within the last year, (ii) \$0.6 million of acquisition related costs, and (iii) \$0.3 million of restructuring expenses, partially offset by a \$2.0 million gain on the disposal of real estate. Second quarter 2013 included \$2.9 million of acquisition related costs, bad debt expense of \$1.4 million and \$0.4 million of restructuring expenses, recorded primarily in the Electrical segment.

INCOME FROM OPERATIONS

(Dollars in Millions)

	Three Months Ended		Six Months Ended	
	Jun 28, 2014	Jun 29, 2013	Jun 28, 2014	Jun 29, 2013
Income from Operations	\$ 87.7	\$ 81.1	\$ 157.4	\$ 157.0
As a percentage of net sales	10.3 %	9.9 %	9.5 %	9.8 %
Income from Operations by Segment				
Electrical segment	\$ 79.5	\$ 72.7	\$ 142.3	\$ 140.0
As a percentage of net sales	10.2 %	9.7 %	9.4 %	9.6 %

Mechanical segment	\$ 8.2	\$ 8.4	\$ 15.1	\$ 17.0
As a percentage of net sales	11.8 %	12.2 %	11.3 %	12.5 %

The effective tax rate for the second quarter 2014 was 26.5% compared to 25.0% for the second quarter 2013. The change from the prior year was primarily driven by an increase in the Mexican statutory tax rate in 2014 and a 2013 retroactive benefit of \$0.9 million from the qualification for a China high technology incentive.

For the second quarter 2014, net cash provided by operating activities was \$99.5 million. For the second quarter 2014, free cash flow* represented 140.4% of net income attributable to Regal Beloit.

Gliebe continued, "In the third quarter, we expect modest growth in our HVAC businesses, strength in our mechanical business and relatively flat performance in our commercial and industrial businesses. Overall, we anticipate modest organic revenue growth in the third quarter but we expect operating margin headwinds from lower sales and profits in our Venezuelan operations and a delay in the benefits from one of our manufacturing plant transitions. In the third quarter, we expect diluted earnings per share to be \$1.05 to \$1.13. Adding back \$0.05 of estimated restructuring expenses and \$0.02 of purchase accounting adjustments, adjusted diluted earnings per share is expected to be \$1.12 to \$1.20."

Regal management will hold a conference call to discuss the earnings release at 9:00 AM CDT (10:00 AM EDT) on Wednesday, July 30, 2014. Individuals who would like to participate by phone should dial 888-317-6003 and enter 4076347 when prompted. International callers should dial 412-317-6061 and enter 4076347 when prompted. To view the presentation during the call, please follow this link to Regal's Investors page: <http://investors.regalbeloit.com/phoenix.zhtml?c=116222&p=irol-presentations>.

To listen to the live audio and view the presentation via the internet, please go to: <http://www.videonewswire.com/event.asp?id=99878>.

A telephone replay of the call will be available through October 30, 2014, at 877-344-7529, conference ID 10048736. International callers should call 412-317-0088 using the same conference ID. A webcast replay will be available until October 30, 2014, and can be accessed at <http://investors.regalbeloit.com/phoenix.zhtml?c=116222&p=irol-calendarPast> or at <http://www.videonewswire.com/event.asp?id=99878>.

A telephone replay of the call will be available through August 5, 2014, at 877-344-7529, conference ID 10044397. International callers should call 412-317-0088 using the same conference ID. A webcast replay will be available until August 5, 2014, and can be accessed at <http://investors.regalbeloit.com/phoenix.zhtml?c=116222&p=irol-calendarPast> or at <http://www.videonewswire.com/event.asp?id=98896>.

Regal Beloit Corporation is a leading manufacturer of electric motors, mechanical and electrical motion controls and power generation products serving markets throughout the world. Regal Beloit is headquartered in Beloit, Wisconsin, and has manufacturing, sales and service facilities throughout the United States, Canada, Mexico, Europe and Asia. Regal Beloit's common stock is a component of the S&P Mid Cap 400 Index and the Russell 2000 Index.

CAUTIONARY STATEMENT

The following is a cautionary statement made under the Private Securities Litigation Reform Act of 1995: With the exception of historical facts, the statements contained in this press release may be forward looking statements. Forward-looking statements represent our management's judgment regarding future events. In many cases, you can identify forward-looking statements by terminology such as "may," "will," "plan," "expect," "anticipate," "estimate," "believe," or "continue" or the negative of these terms or other similar words. Actual results and events could differ materially and adversely from those contained in the forward-looking statements due to a number of factors, including: uncertainties regarding our ability to execute our restructuring plans within expected costs and timing; actions taken by our competitors and our ability to effectively compete in the increasingly competitive global electric motor, power generation and mechanical motion control industries; our ability to develop new products based on technological innovation and the marketplace acceptance of new and existing products; fluctuations in commodity prices and raw material costs; our dependence on significant customers; issues and costs arising from the integration of acquired companies and businesses, including the timing and impact of purchase accounting adjustments; unanticipated costs or expenses we may incur related to product warranty issues; our dependence on key suppliers and the potential effects of supply disruptions; infringement of our intellectual property by third parties, challenges to our intellectual property, and claims of infringement by us of third party technologies; increases in our overall debt levels as a result of acquisitions or otherwise and our ability to repay principal and interest on our outstanding debt; product liability and other litigation, or the failure of our products to perform as anticipated, particularly in high volume applications; economic changes in global markets where we do business, such as reduced demand for the products we sell, currency exchange rates, inflation rates, interest rates, recession, foreign government policies and other external factors that we cannot control; unanticipated liabilities of acquired businesses; cyclical downturns affecting the global market for capital goods; difficulties associated with managing foreign operations; and other risks and uncertainties including but not limited to those described in Item 1A-Risk Factors of the Company's Annual Report on Form 10-K filed on

February 26, 2014 and from time to time in our reports filed with U.S. Securities and Exchange Commission. All subsequent written and oral forward-looking statements attributable to us or to persons acting on our behalf are expressly qualified in their entirety by the applicable cautionary statements. The forward-looking statements included in this presentation are made only as of their respective dates, and we undertake no obligation to update these statements to reflect subsequent events or circumstances.

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

Unaudited

(Dollars in Millions, Except per Share Data)

	Three Months Ended		Six Months Ended	
	Jun 28, 2014	Jun 29, 2013	Jun 28, 2014	Jun 29, 2013
Net Sales	\$ 850.4	\$ 822.0	\$ 1,651.6	\$ 1,600.2
Cost of Sales	639.4	612.8	1,246.2	1,191.5
Gross Profit	211.0	209.2	405.4	408.7
Operating Expenses	122.3	128.1	247.0	251.7
Goodwill Impairment	1.0	—	1.0	—
Total Operating Expenses	123.3	128.1	248.0	251.7
Income From Operations	87.7	81.1	157.4	157.0
Interest Expense	10.3	10.7	20.7	21.3
Interest Income	1.7	1.1	3.4	1.8
Income Before Taxes	79.1	71.5	140.1	137.5
Provision For Income Taxes	21.0	17.9	37.0	33.2
Net Income	58.1	53.6	103.1	104.3
Less: Net Income Attributable to Noncontrolling Interests	1.9	2.5	3.1	3.7
Net Income Attributable to Regal Beloit Corporation	\$ 56.2	\$ 51.1	\$ 100.0	\$ 100.6
Earnings Per Share Attributable to Regal Beloit Corporation:				
Basic	\$ 1.24	\$ 1.14	\$ 2.22	\$ 2.24
Assuming Dilution	\$ 1.24	\$ 1.13	\$ 2.20	\$ 2.22
Cash Dividends Declared	\$ 0.22	\$ 0.20	\$ 0.42	\$ 0.39
Weighted Average Number of Shares Outstanding:				
Basic	45.2	45.0	45.1	45.0
Assuming Dilution	45.5	45.3	45.5	45.3

SEGMENT INFORMATION

Unaudited

(Dollars In Millions)

	Three Months Ended			
	Electrical Segment		Mechanical Segment	
	Jun 28, 2014	Jun 29, 2013	Jun 28, 2014	Jun 29, 2013
Net Sales	\$ 780.9	\$ 753.3	\$ 69.5	\$ 68.7
Income from Operations	79.5	72.7	8.2	8.4

	Six Months Ended			
	Electrical Segment		Mechanical Segment	
	Jun 28, 2014	Jun 29, 2013	Jun 28, 2014	Jun 29, 2013
Net Sales	\$ 1,517.7	\$ 1,464.3	\$ 133.9	\$ 135.9
Income from Operations	142.3	140.0	15.1	17.0

CONDENSED CONSOLIDATED BALANCE SHEETS

Unaudited

(Dollars in Millions)

	Jun 28, 2014	Dec 28, 2013
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 445.3	\$ 466.0
Trade Receivables, less Allowances of \$13.9 million in 2014 and \$11.5 million in 2013	565.2	463.8
Inventories	659.4	618.7
Prepaid Expenses and Other Current Assets	126.7	130.6
Deferred Income Tax Benefits	45.0	46.8
Total Current Assets	1,841.6	1,725.9
Net Property, Plant, Equipment and Noncurrent Assets	1,957.8	1,917.6
Total Assets	\$ 3,799.4	\$ 3,643.5
LIABILITIES AND EQUITY		
Current Liabilities:		
Accounts Payable	\$ 364.5	\$ 304.6
Other Accrued Expenses	239.2	237.9
Current Maturities of Debt	158.2	158.4

Total Current Liabilities	761.9	700.9
Long-Term Debt	608.8	609.0
Other Noncurrent Liabilities	234.3	231.2
Equity:		
Total Regal Beloit Corporation Shareholders' Equity	2,146.0	2,056.2
Noncontrolling Interests	48.4	46.2
Total Equity	<u>2,194.4</u>	<u>2,102.4</u>
Total Liabilities and Equity	<u>\$ 3,799.4</u>	<u>\$ 3,643.5</u>

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW

Unaudited
(Dollars in Millions)

	Three Months Ended		Six Months Ended	
	Jun 28, 2014	Jun 29, 2013	Jun 28, 2014	Jun 29, 2013
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net income	\$ 58.1	\$ 53.6	\$ 103.1	\$ 104.3
Adjustments to reconcile net income and changes in assets and liabilities (net of acquisitions) to net cash provided by operating activities:				
Depreciation and amortization	35.2	31.8	68.0	63.4
Excess tax benefits from share-based compensation	(0.2)	(0.1)	(1.2)	(0.7)
Goodwill Impairment	1.0	—	1.0	—
Loss on disposition of property, net	0.1	0.3	0.2	0.3
Share-based compensation expense	3.6	3.1	6.3	5.4
Change in operating assets and liabilities	1.7	2.6	(32.1)	(15.4)
Net cash provided by operating activities	<u>99.5</u>	<u>91.3</u>	<u>145.3</u>	<u>157.3</u>
CASH FLOWS FROM INVESTING ACTIVITIES:				
Additions to property, plant, and equipment	(20.6)	(26.6)	(42.9)	(47.2)
Purchases of investment securities	(21.0)	(8.4)	(22.2)	(16.0)
Sales of investment securities	1.0	8.4	8.7	15.8
Business acquisitions, net of cash acquired	(0.3)	—	(77.6)	(6.0)
Additions of equipment on operating leases	(1.6)	—	(3.2)	—
Proceeds from sale of assets	0.1	—	0.1	—
Net cash used in investing activities	<u>(42.4)</u>	<u>(26.6)</u>	<u>(137.1)</u>	<u>(53.4)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:				

Borrowings under revolving credit facility	—	20.0	—	20.0
Repayments under revolving credit facility	—	(17.0)	—	(17.0)
Net proceeds of short-term borrowings	(0.7)	(1.5)	(0.3)	2.3
Repayments of long-term debt	—	(55.1)	(0.1)	(55.2)
Dividends paid to shareholders	(9.1)	(8.5)	(18.1)	(17.0)
Payments of contingent consideration	(8.6)	—	(8.6)	—
Proceeds from the exercise of stock options	0.2	1.0	0.8	2.2
Excess tax benefits from share-based compensation	0.2	0.1	1.2	0.7
Net cash used in financing activities	(18.0)	(61.0)	(25.1)	(64.0)
EFFECT OF EXCHANGE RATES ON CASH AND CASH EQUIVALENTS	(0.2)	(1.2)	(3.8)	(0.8)
Net increase (decrease) in cash and cash equivalents	38.9	2.5	(20.7)	39.1
Cash and cash equivalents at beginning of period	406.4	411.9	466.0	375.3
Cash and cash equivalents at end of period	<u>\$ 445.3</u>	<u>\$ 414.4</u>	<u>\$ 445.3</u>	<u>\$ 414.4</u>

NON-GAAP MEASURES

Unaudited
(Dollars in Millions)

We prepare financial statements in accordance with accounting principles generally accepted in the United States (GAAP). We also disclose adjusted diluted earnings per share (EPS), adjusted gross profit, adjusted gross profit as a percentage of net sales, adjusted income from operations, free cash flow and free cash flow as a percentage of net income attributable to Regal Beloit Corporation (collectively, "non-GAAP financial measures"). We use these measures in our internal performance reporting and for reports to the Board of Directors. We also periodically disclose certain of these measures in our quarterly earnings releases, on investor conference calls, and in investor presentations and similar events. We believe that these non-GAAP financial measures are useful measures for providing investors with additional insight into our operating performance. This additional information is not meant to be considered in isolation or as a substitute for our results of operations prepared and presented in accordance with GAAP. Free cash flow is defined as net cash provided by operating activities less additions to property, plant and equipment adjusted for grants received for capital expenditures.

Three Months Ended		Six Months Ended	
Jun 28,	Jun 29,	Jun 28,	Jun 29,

	2014	2013	2014	2013
GAAP Gross Profit	\$ 211.0	\$ 209.2	\$ 405.4	\$ 408.7
Purchase Accounting Costs	0.3	—	1.3	—
Restructuring Costs	3.3	1.0	7.5	1.5
Adjusted Gross Profit	<u>\$ 214.6</u>	<u>\$ 210.2</u>	<u>\$ 414.2</u>	<u>\$ 410.2</u>
Adjusted Gross Profit as a Percentage of Net Sales	25.2 %	25.6 %	25.1 %	25.6 %

	Three Months Ended		Six Months Ended	
	Jun 28, 2014	Jun 29, 2013	Jun 28, 2014	Jun 29, 2013
GAAP Income from Operations	\$ 87.7	\$ 81.1	\$ 157.4	\$ 157.0
Purchase Accounting and Transaction Costs	0.8	—	2.1	—
Restructuring Costs	3.6	1.4	7.8	2.3
Gain of Disposal of Real Estate	2.0	—	2.0	—
Adjusted Income from Operations	<u>\$ 94.1</u>	<u>\$ 82.5</u>	<u>\$ 169.3</u>	<u>\$ 159.3</u>

	Three Months Ended		Six Months Ended	
	Jun 28, 2014	Jun 29, 2013	Jun 28, 2014	Jun 29, 2013
GAAP Net Cash Provided by Operating Activities	\$ 99.5	\$ 91.3	\$ 145.3	\$ 157.3
Additions to Property Plant and Equipment	(20.6)	(26.6)	(42.9)	(47.2)
Free Cash Flow	<u>\$ 78.9</u>	<u>\$ 64.7</u>	<u>\$ 102.4</u>	<u>\$ 110.1</u>
Free Cash Flow as a Percentage of Net Income Attributable to Regal Beloit	140.4 %	126.6 %	102.4 %	109.4 %

SOURCE Regal Beloit Corporation

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