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Regal Rexnord (RRX)

Data Centers. Robotics. AI. Oh My!

We are long Regal Rexnord, a $15 billion market capitalization leader in industrial power transmission and motion control solutions. Five years ago, Regal Beloit was largely a low-growth, HVAC-heavy, low-margin company prone to cyclicality. However, two major acquisitions have given Regal an extreme makeover. With the acquisitions of Rexnord's Process & Motion Control business ($3.7B, 2021) and Altra Industrial Motion ($5.1B, 2023), Regal laid the foundation for a remarkable business transformation. Unfortunately, the Altra deal coincided with the onset of a three-year industrial recession, which effectively obscured the emergence of a new Regal. As well, facing a lackluster demand environment while burdened with the heavy debt load from the acquisitions got Regal tagged with the scarlet letter of "overleveraged", hurting sentiment. Regal's stock languished as investors looked elsewhere.

But the magnitude of Regal's transformation is coming into focus. The transactions created dominant positions in multiple product markets and merged highly complementary product lines into a broader, more cohesive portfolio that enables the development of value-added integrated industrial powertrain solutions. More importantly, the deals brought Regal significantly greater exposure to key exciting end markets. Today, Regal has world-leading products that position the company to capitalize on some of the best growth themes in the market: data center, industrial automation, aerospace & defense, and robotics. These secular drivers, coupled with even a modest short-cycle industrial upturn, should supercharge Regal's growth profile. If you believe the revolution in "physical AI" and/or reshoring will lead to a US manufacturing renaissance, Regal is the stock to own.

Take Regal's data center thrust. The company has sold switchgear for over 50 years, and that business has grown at a 30% CAGR for the past five years and is expected to double over the next two years. But it is Regal's entry into the market for data center power equipment modules (ePODs) that is about to drive a powerful financial inflection. Regal entered the ePOD market in early 2025 and exited Q4 with $735 million of orders. Incredible.

Regal's corporate transformation has driven significantly higher profitability. Since 2018, Regal's gross and EBITDA margins have improved 11 and 7 percentage points, respectively. Moreover, a return to a more normalized demand environment should drive additional margin expansion. For any industrials investor, Regal checks every box on the wish list. Exposure to thematically attractive secular growth opportunities? Check. Inflecting short-cycle industrial demand? Check. A powerful earnings inflection that can blow away an overly conservative consensus? Check. A credible de-leveraging story that promises to reallocate value to equity holders? Check. Trading at a massive discount to its peers, providing a compelling re-rating thesis? Check.

Regal currently trades at just 11.5x 2027E EBITDA. Compare Regal to other industrial equities benefiting from data center demand, A&D exposure, industrial robotics, and other attractive secular themes, and the company's discounted valuation is striking. We see Regal shares motoring at least 100% higher, with exciting optionality on numerous growth opportunities.

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Investment Highlights

Regal has undergone a remarkable transformation. The legacy Regal Beloit was over 75% exposed to mature industrial motors for air handling (HVAC and climate control) applications and lacked pricing power due to customer concentration and a portfolio laden with more commoditized products. With the acquisitions of Rexnord's Process & Motion Control business and Altra Industrial Motion, Regal added approximately $4 billion of higher margin revenue that improved its financial profile in every way (except for the additional $6.5 billion of debt). The new Regal is bigger, more diversified, and much more profitable. Most importantly, Regal gained exposure to some of the most attractive thematic growth opportunities in the market today, many of which have endowed other industrial players with even marginal exposure significant valuation premiums.

Regal has become a powertrain powerhouse. Regal didn't just get bigger; it got a whole lot better. Each of the three predecessor companies had spent decades consolidating specialized brands, some with 100-year legacies and many with world-leading products. The industrial logic of combining them is undeniable. Regal's portfolio now spans the complete industrial powertrain, including motors, gears, clutches, brakes, and couplings, and combines this suite of components with a range of products that convert a motor's power output into linear motion, such as linear actuators. The company can also now address everything from punishing heavy-duty solutions to miniaturized, high precision applications. The new Regal has dominant positions, in some cases exceeding 80-90% share, in attractive product/application markets. Regal's new breadth means one-plus-one equals more than two. The company is finally seeing meaningful cross-selling synergies, and the opportunity is enormous. As CEO Pinkham noted on the Q1 2026 call: *"if a customer is buying one of our products, they need to buy all of our products, yet less than 20% of our customers are buying two or more of our product families."* The breadth of Regal's product portfolio is also providing the opportunity to bring to market new value-added, integrated solutions. Such solutions further increase cross-brand leverage, addressable market, customer engagement, switching costs, and resultant margins. Regal expects system solutions to grow from ~10% of revenue today to 30-40% by the end of the decade.

Regal's data center opportunity is underappreciated. Many industrial stocks have caught fire once investors recognized their data center exposure. Sitting at the epicenter of two of the most important data center design considerations and ramp constraints – power delivery and cooling requirements – Regal should be no different. The company has leveraged its multi-decade legacy in switchgear to enter the market for data center power equipment modules (ePODs). ePODs are turn-key solutions integrating a number of mission-critical systems that improve data center power design and accelerate time-to-power. Needless to say, data center construction represents one of the most spectacular capital investment waves since World War Two, and Regal is outmaneuvering incumbents by offering superior customization. Regal formally entered the ePOD market in early 2025 and exited Q4 with a whopping $735 million of orders, which are expected to ship in 2027. Its standalone switchgear business is set to double over the next two years, and even Regal's legacy HVAC products are seeing increased order

activity for data center cooling tower and related air handling applications. Taken together, Regal's data center business can grow from ~$130 million in 2025 to well over $900 million in 2027. By 2028, data center could account for 16% or more of Regal revenue, providing ample justification for a re-rating.

From cyclical stagnation to secular growth. Regal isn't just a data center play. The new Regal has over 50% exposure to attractive secular growth markets. The Altra deal brought several world-leading brands, such as Kollmorgen, Portescap, and Thomson Linear, that sell highly engineered products into industrial automation applications. Physical AI, or the extension of artificial intelligence into the physical world, promises to revolutionize manufacturing and logistics. Regal has a broad portfolio of motors and linear motion products required for robotics, conveyor systems, and warehouse material handling that account for 21% of total revenue. Regal also sells key components into a broad range of aerospace and defense sub-systems, including space systems and UAVs, and orders for these products grew 76% YoY in Q1. Medical is another growth market where Regal supplies a broad range of precision components into surgical robots and other devices. After a year of destocking, Regal's medical business is poised to inflect, with orders up 53% in Q1. Regal recently named Aamir Paul as its new CEO. With a reputation for new product commercialization during his tenure at Schneider, in addition to extensive data center expertise, Paul is likely to wring more growth out of these dynamic markets.

The humanoid play. The proof points are stacking up that humanoid robots are for real. AI will provide the requisite intelligence, but it is Regal that will provide the muscle. Regal is one of the few companies that can integrate motors, actuators, and controls to create integrated humanoid joint solutions, and the company is already selling into some of the industry's leaders. Read the research on the market potential for humanoids, and you will see more hockey sticks than on a Canadian school bus in December. Suffice it to say, the market could be enormous, easily reaching hundreds of billions or even trillions. Every humanoid analysis we have seen forecasts that motion control components will comprise 40-60% of the bill of materials, meaning the opportunity for Regal is huge. Moreover, China dominates the robotics supply chain, which may just transform Regal into a strategic asset and beneficiary of national industrial policy. Given the lack of near-term visibility on volumes, we exclude the humanoid opportunity from our forecasts, but building a highly theoretical DCF solely for this revenue stream can support almost $5 billion of incremental market value today, if not much more.

Regal's air handling business doesn't blow. As much as Regal's legacy air handling business is vilified by investors, it shouldn't detract from the company's compelling story. Regal's outgoing CEO Pinkham is a skilled operator who both rationalized the product portfolio and divested its most commoditized products, such that Regal is now focused on premium markets for high efficiency solutions. This business is also seeing large orders for data center and semiconductor cleanroom air handling systems that provide a newfound boost of growth. More broadly speaking for HVAC, the commercial market has resumed growth, and the long stagnant residential market has likely bottomed. Ultimately, this business has provided both $1.6 billion of EBITDA to help fund Regal's strategic acquisitions and valuable manufacturing scale economies that benefit the company's other segments.

Many signs point to an improving macro backdrop. Secular growth is nice, but a short-cycle industrial recovery can really supercharge Regal's earnings growth. After almost three years of recessionary readings, the ISM PMI has returned to solidly above 50. Regal noted that Q1 orders from short-cycle OEM customers were up almost 9%, typically a leading indicator of a cyclical recovery. The company also highlighted widespread strength across nearly all its end markets to an extent not seen for several years. The Trump Administration's array of actions to stimulate major capital investment projects and incentivize reshoring may further bolster the recovery trend. Of note, diversified industrial stocks have historically outperformed the S&P 500 by 9% in the year after PMIs return above 50.

Already impressive, Regal's financial transformation has more room to run. A normalized demand environment can drive healthy pricing and material margin expansion, particularly in the former Altra business where tariff, raw material, volume, and mix headwinds should abate in 2H 2026. The leading brands within the Altra portfolio that sell precision products are not only poised for outsized growth, they also happen to generate very attractive margins. Ultimately, given its long-term growth drivers, product differentiation, and ever-improving mix, Regal is poised to join the rarified pantheon of industrial compounders along with the likes of RBC Bearings, Danaher, TransDigm, and Heico.

Regal Rexnord's Financial Transformation

	2018	2025	2028E
Revenue	$ 3,646	$ 5,934	$ 7,853
Customer Concentration (1)	~24%	~11%	<10%
Percent From PES (or Predecessor)	77%	28%	23%
Percent From Data Center	NM	3%	16%
Gross Margin	26%	37%	43%
Adj. EBITDA	$ 538	$ 1,307	$ 1,892
Adj. EBITDA Margin	15%	22%	24%
Adj. Free Cash Flow	$ 285	$ 893	$ 1,231
Adj. Free Cash Flow Margin	8%	15%	16%

(1) Top 10 OEM customer sales as a percent of total
Source: Regal Rexnord, Kerrisdale analysis

Consensus estimates for Regal are way too conservative. To date, consensus has heavily discounted the growth potential and margin expansion prospects for Regal. When we subtract our data center forecast based on management guidance from consensus revenue, the result is an implied 1-2% revenue growth in 2027 and 2028 for the remainder of Regal. Given the company's rich set of growth drivers and the prospects for a cyclical recovery, such conservatism seems unwarranted. Moreover, such growth rates seem unrealistically low when compared to Regal's diversified industrial peers, where the median growth rates are 6% and the smallest rate 3-4%. In addition, consensus calls for a mere 76bps of EBITDA margin expansion from 2025 to 2028E. Improving mix, cross-selling, integrated system sales, higher volumes, cost synergy realization (not even in 2026 guidance), and declining tariff and raw material headwinds should allow Regal to blow past consensus. As a result, we believe Regal can generate EPS of nearly $15/share in 2027E and almost $18/share in 2028E, even while assuming only a modest cyclical recovery.

Concerted debt reduction will drive additional shareholder returns. Regal should be able to generate over $1.6 billion of free cash flow over the next two years. This would allow Regal to reduce its net leverage from 3.3x exiting Q1 to 1.5x by early 2028, and eliminating the associated interest expense would boost 2028E EPS by over $1.20/share. Beyond reallocating value to equity holders, shedding the stigma of excessive leverage should drive renewed investor interest in and a re-rating of Regal shares. In addition, Regal is also likely to resume share repurchases once leverage reaches 2.5x in the next 6-9 months.

Get it while it's cheap. Despite an impressive strategic and financial transformation and exposure to a wealth of popular secular growth drivers, Regal is one of the cheapest industrial stocks in the market today. Regal trades at just 11.5x 2027E EBITDA, low on an absolute basis and a steep discount to its diversified industrial peer median. Inexplicably, even as Regal has improved its competitive positioning and profitability, its trading discount to RBC Bearings and Parker-Hannifin has only expanded. In a world where even a whiff of data center revenue in a company's opportunity pipeline can drive material multiple expansion, Regal's exclusion from the party stands out. Where's the love? A sum-of-the-parts analysis to properly match segment growth profile to valuation multiple yields 81% upside in Regal shares. Similarly, looking out to mid-2027, by which time Regal should have demonstrated the start of its data center ramp and a comparison to its stronger peers will be more defensible, a discounted 2028E-based valuation returns 123% upside. Finally, a DCF analysis using highly conservative assumptions yields 93% upside in Regal shares. Add to that the brisk tailwind of a cyclical recovery lifting all industrial stocks, and Regal will become better known for the linear motion of its stock price: strongly up and to the right.

Regal Rexnord Share Price Upside by Methodology		
Methodology	**Price**	**Upside**
Sum-of-the-Parts Analysis Based on 2027E	$ 397.75	81%
Discounted 2028E EBITDA-Based Valuation	$ 491.17	123%
Discounted Cash Flow Analysis	$ 424.02	93%
Average	**$ 437.65**	**99%**

Source: Kerrisdale analysis

Background: Building Industrial Muscle

Regal Rexnord Historical Financials, Kerrisdale Forecast, and Valuation

(FYE December; $ in millions except per share figures)

Market Valuation	
Stock Price (as of 6/29/26)	$219.88
Shares Outstanding (1)	67
Dilutive Shares (2)	1
Fully Diluted Shares Out.	67
Market Capitalization	$14,753
Cash	401
Debt (3)	4,965
Enterprise Value	$19,317

Summary Financials	2022	2023	2024	2025	2026E	2027E	2028E
Revenue	$ 5,218	$ 6,251	$ 6,034	$ 5,934	$ 6,248	$ 7,279	$ 7,853
Reported YoY Growth	37%	20%	(3%)	(2%)	5%	16%	8%
Organic YoY Growth	9%	(7%)	(5%)	1%	-	-	-
Adj. EBITDA (4)	$ 1,112	$ 1,307	$ 1,310	$ 1,307	$ 1,388	$ 1,676	$ 1,892
Margin	21%	21%	22%	22%	22%	23%	24%
Adj. Net Income (5)	$ 722	$ 609	$ 609	$ 644	$ 726	$ 994	$ 1,192
Margin	14%	10%	10%	11%	12%	14%	15%
Valuation Multiples							
EV / Revenue				3.3x	3.1x	2.7x	2.5x
EV / EBITDA				14.8x	13.9x	11.5x	10.2x
P / E				22.9x	20.3x	14.8x	12.4x

(1) From Q1 2026 10-Q
(2) Includes 0.5 million shares attributable to stock options and unvested RSAs and RSUs
(3) Includes $156 million of operating lease liabilities and $103 million of pension liabilities
(4) Adjusted EBITDA excludes transaction and restructuring expenses, loss on sale of accounts receivable and related transaction expenses, operating lease asset step-up, (gain)/loss on sale of assets, other income/(expense) net, and share based compensation expense
(5) Adjusted net income excludes amortization of intangibles, share based compensation expense, and minority interest
Source: Regal Rexnord financial disclosures, Kerrisdale analysis

Beloit Tool Corporation was founded in 1955 and initially supplied industrial cutting and threading tools. The company changed its name to Regal Beloit in 1969 and refocused on consolidating suppliers of electrical motors and related components, resulting in heavy exposure to general industrial and HVAC applications. The company has continued to be highly acquisitive, completing 40 transactions since 2000. Many deals have targeted niche brands, but three large deals in recent years have been most impactful. In 2015, its $1.4 billion acquisition of Emerson's Power Transmission Solutions business conveyed to Regal the Thomson Power Systems line of switchgear and other power transmission products. Regal's metamorphosis accelerated after Louis Pinkham became CEO in 2019. In 2021, the company merged with Rexnord Corporation's Process & Motion Control business in a $3.7 billion Reverse Morris Trust transaction, greatly expanding the combined company's ability to address the whole industrial powertrain. The most transformative deal was Regal's 2023 acquisition of Altra Industrial Motion (AIMC) for $5.1 billion. A former Danaher spinoff, Altra is a premier supplier of precision motors and motion control products for specialized applications and provided Regal with miniaturization expertise, a salesforce highly respected for technical proficiency, and newfound exposure to multiple secular growth markets. A disciplined operator, Pinkham has spent much of the past five years integrating these companies, implementing structured, metrics-driven business practices, and realizing synergies. Regal's portfolio now spans over 60 well-known brands, most with specialized product or application expertise, multi-decade (or even 100-plus year) legacies, and global leadership positions.

Today, Regal has one of the broadest portfolios of products that power, transmit, and control motion. The portfolio is organized into three operating segments:

- Automation & Motion Control (AMC) supplying high precision servo motors, actuators, and drives as well as the Thomson power transmission products and automated

conveyor solutions. Largely comprised of the Altra business, major end markets are automation (32%), aerospace (21%), food and beverage (21%), medical (7%), and data center (7%).

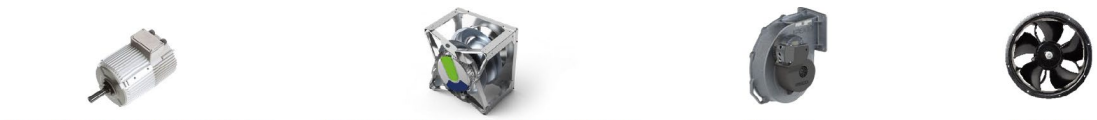
Major AMC Products

- Industrial Powertrain Solutions (IPS) supplying bearings, couplings, drives, gearboxes, clutches, brakes, and integrated industrial powertrain solutions. Largely comprised of the Emerson and Rexnord businesses, major end markets are general industrial (37%), metals and mining (24%), and energy (18%).

Major IPS Products

- Power Efficiency Solutions (PES) supplying high efficiency electric motors, controls, drives, fans, blowers and integrated air moving solutions. Largely comprised of the legacy Regal Beloit, HVAC accounts for 54% of the segment's revenue, split evenly between commercial and residential, with the remainder of segment revenue coming from a wide variety of commercial applications.

Major PES Products



Regal Rexnord 2025 Financial Overview

Summary Segment Financials

	AMC	IPS	PES
Revenue	$ 1,690	$ 2,594	$ 1,651
YoY Growth	3%	(0%)	0%
RRX Guided Mid-Cycle Growth	5-7%	3-5%	2-4%
Percent of Total	28%	44%	28%
Gross Margin	38%	42%	29%
Adjusted EBITDA	$ 348	$ 686	$ 273
YoY Growth	(4%)	1%	6%
Margin	21%	26%	17%
Percent of Total	27%	53%	21%

Source: Regal Rexnord

Total Revenue by End Market

End Market	% of Total
General Industrial	25%
Discrete Automation	21%
HVAC	18%
Metals & Mining	10%
Energy	8%
Aerospace & Defense	7%
Data Center	3%
Medical	2%
Other	5%

Secular growth markets shaded blue

The New Regal: Bigger, Broader, and Stronger

Regal generated $5.9 billion in revenue in 2025 and now benefits from end market diversity, exposure to numerous thematic growth opportunities, virtually no customer concentration, and greatly reduced cyclicality. Each of Regal's three billion-dollar-plus targets had similarly spent years acquiring leading brands. Thus, it is difficult to overstate how the combined effect of these transactions has altered the competitive landscape. Regal has arguably assembled the highest quality and most complete portfolio of power transmission and motion control products. In select product areas, the company has 80%-plus market share, and it is one of very few companies that can develop integrated solutions. Notable competitors include RBC Bearings (Dodge unit), Timken, and Parker-Hannifin, but most of Regal's markets are highly fragmented where competitors have narrow product lines or niche application or geographic focus. Regal has a global manufacturing footprint, with major investments in Mexico, Germany, and China, yet the company still generates 63% of revenue from the US.

Regal Rexnord Product Portfolio Breadth Versus Competitors

	Regal		Competitors					
Area	Rank	Regal	A	B	C	D	E	F
Premium Eff. Motors	Top 3	●			◑			
Bearings	Top 3	●	●	●		●		
Couplings	#1	●	◕	◑	◕	◕	◔	
Clutches & Brakes	#1	●	◕				◕	◔
Gearing	Top 3	●	◑	◑	●			
Digital / IoT	Top 3	◕	◑		◔	◔		◑

Source: Regal Rexnord

Regal Has Emerged as a Powerhouse, Benefiting From Distinctly Attractive Competitive Advantages

Unrivaled Product Breadth

Regal Beloit, Rexnord, and Altra had each acquired numerous niche brands over decades, so bringing them together has created select product markets where Regal is truly the dominant company and hard to get around. For example, Regal might have up to 90% share in certain types of industrial clutches and brakes, backstops, and couplings. Achieving such unrivaled scale and product diversity addresses customer trends toward supplier concentration, enables customer design and purchasing efficiencies, makes Regal a more strategic partner, and improves the company's pricing leverage. A post-M&A integration priority has been laying the foundation for capturing the benefits of cross-selling across a broad portfolio of disparate brands. Regal has faced investor skepticism, and the effort certainly involved some heavy lifting. However, incentive structures and sales practices have finally been redesigned, and these efforts are beginning to bear fruit. Regal recorded $90 million of powertrain cross-sell synergies

in 2025 alone, and in Q1 the company noted a 34% increase in cross-selling revenue and an 18% increase in its related pipeline. Thus, Regal expects to exceed its stated target of $250 million of incremental cross-selling revenue in 2026. Ultimately, the cross-selling opportunity for Regal is enormous and just getting started. As CEO Pinkham noted on the Q1 2026 call: *"if a customer is buying one of our products, they need to buy all of our products, yet less than 20% of our customers are buying two or more of our product families."* Finally, based on our conversations with distributors, driving scale and scope also increases Regal's importance to the channel. Distributors are key levers for customer engagement, opportunity sourcing, and global coverage.

Product Differentiation and High Switching Costs

The AI infrastructure explosion has led to unprecedented investor focus on the most sophisticated technology hardware. By contrast, Regal's old-school industrial products may seem quaint or commoditized given their maturity. And with R&D at just 3% of revenue, Regal is not an R&D intensive business. Yet Regal drives competitive advantage countless other ways. The company continues to drive innovation, improving form factor, power density, efficiency, and precision control. The company's products serve a breadth of applications, and Regal excels at each end of the spectrum. The company's heavy-duty conveyor solutions for mining are renowned for their durability despite punishing conditions, while its micromotion products are equally differentiated by their precision and highly engineered designs and capabilities. At both extremes, Regal's products are meeting rigorous, pre-defined specifications where historical performance is a key purchasing criteria. Customers are installing manufacturing and logistics lines that will have 20 to 30 year lives, which discourages short-termism or risk-taking in procurement decisions. The end products using Regal components are mission-critical, making the company an easy choice given its superb track record. In fact, in many Regal markets, end product regulatory requirements and certifications create material switching costs, as component changes would require requalification. Applications expertise is also important, yet a challenge to deliver, given the scope of end uses. For example, Altra's salesforce was famous for its highly skilled engineering expertise, and Portescap motors are customized for specific applications such as medical devices. This ability to deliver customization at scale is a key differentiator. Regal also benefits from real barriers to entry. Credible competitors require manufacturing plants and global distribution, meaning new entrants would face large capital expenditures and the prospect of multi-year selling efforts to penetrate new platforms. As a result, Regal has said they have strong pricing power in 90% of their business.

The Aftermarket Annuity

In Regal's markets, it is typical that initial OEM sales are more competitive (or at least involve more price negotiation) and thus deliver lower margins. But Regal is really playing for the multi-decade annuity of aftermarket sales. Because industrial powertrains, gearboxes, and conveyor components operate under heavy operational friction in demanding physical environments (such as food and beverage processing, mining, and warehouse logistics), they require regular, non-discretionary replacement. Replacement cycles typically range from 3 to 5 years, and these sales come at 10 to 20 percentage point higher gross margins. There is very little switching (80-

90% retention) because, even if there are viable competitors, doing so would require redesign, re-testing, and/or re-qualification/certification of the entire system, which is expensive and time-consuming. This spec lock-in allows Regal to price aftermarket sales more aggressively. As a result, the value of aftermarket sales can be 6x that of the orginal OEM sale. Thus, we are little concerned when "strong OEM mix" in a particular quarter results in gross margin pressures, because it just means Regal has grown its installed base and captured significant future value. Around 40% of Regal revenue is from aftermarket sales, which also tends to be less cyclical in nature.

Increasing Value-Add Through Solution Sales

The breadth of Regal's product portfolio provides another unique opportunity: to transition from a supplier of discrete products to one of value-added, integrated solutions. Developing such solutions can further increase cross-brand leverage, addressable market, customer engagement, switching costs, and resultant margins. For example, Regal can combine power sources (its high-efficiency motors) with its vast array of products that transmit and control motion (such as gearing, bearings, couplings, and actuators) to create integrated industrial powertrains. These solutions improve reliability, energy efficiency, and ease of use while often also reducing customer design and engineering costs. In addition, in medical markets, Regal can combine its precision motors with micro-gearing and sealing as an integrated solution. The company expects system solutions to grow from ~10% of revenue today to 30-40% by the end of the decade.

Regal Rexnord System Solutions

Source: Regal Rexnord

Regal's Powerful New Growth Algorithm

Legacy Regal Beloit's heavy HVAC exposure comes with the taint of cyclicality and seasonality. The IPS segment is more exposed to general industrial trends and has proven to have a GDP+ growth profile. As a result, with the exception of years around economic shocks, organic revenue growth has typically ranged between -/+5%. However, the addition of Altra brought exposure to some of the most exciting thematic secular growth opportunities in the market today: data center, industrial automation, humanoid robots, aerospace & defense, and medical

devices (including surgical robotics). In fact, 85% of AMC revenues are exposed to attractive secular market trends with 3-year CAGRs ranging from mid-single digits to robust double-digits.

Accelerating Data Center Time-to-Power With Customized Modular Solutions

Regal's sales into data centers span all three of its business segments. Through its AMC segment, Regal sells switchgear, power distribution units (PDUs), automatic transfer switches, load banks, and switchboards. These products provide mission critical standby and backup power and include a value-added services component. Its Thomson Power Systems brand has been a leader in low/medium voltage switchgear for over 50 years and has a strong reputation for customization and reliability. Regal's IPS segment supplies terminal blocks, fuse holders, power distribution blocks, couplings, brakes, bearings, and industrial powertrain solutions that are used to power the large fans in cooling towers. Regal also supplies high performance couplings, bearings, and system management components used in turbine-driven and diesel-driven generator sets. Finally, Regal's PES segment supplies motorized impellers, high efficiency motors, and medium/low voltage hermetic motors for chillers, computer room air handling/conditioning, coolant distribution units, and control panels. Thus, Regal sits at the epicenter of two of the most important data center design considerations and ramp constraints: power delivery and cooling requirements.

Data center power architecture is rapidly evolving, from the facility perimeter to the point of load at the processor. While much focus has been on GPU-centric, rack-level power considerations, Regal is poised to capitalize on another major design shift: removing power equipment from the data hall and integrating it into turn-key modularized power assemblies that sit outside the building. Commonly known as electrical houses or energy point of delivery (ePODs), these pre-fabricated, pre-tested units integrate critical data center electrical infrastructure, including switchgear, power distribution units, transfer switches, transformers, uninterruptible power supplies, as well as cooling and safety systems. ePODs are disrupting data center construction because they simplify power infrastructure design, are designed for rapid deployment and thus decrease time-to-power, improve scalability and efficiency, free up data hall space for more valuable compute capacity, and reduce on-site engineering labor requirements. Due to these advantages, ePODs have grown into a $25-30 billion market.

Regal faces formidable competitors, including power heavyweights Vertiv, Schneider, ABB, Eaton, Forgent, and Powell Industries, but the company has several competitive advantages. First, Regal has a multi-decade track record in switchgear, a key ePOD sub-system, with a historical focus on mission-critical applications. More importantly, unlike some of the large incumbent suppliers, Regal is willing to accommodate higher levels of customization. Data center construction is undergoing an unprecedented surge, straining supply chains and creating opportunities for new suppliers like Regal. Power equipment markets are booming and may be supply constrained for at least the next several years. As they say in pro sports, availability is the best ability. Regal is advantaged with a North American manufacturing footprint. It has an

existing facility in Mexico, is expanding its Canadian facility capacity by 50%, and will bring a new facility online in Texas in mid-2026 that will double capacity.

Kerrisdale Regal Rexnord Data Center Revenue Forecast						
($ in millions)	**2025**	**2026E**	**2027E**	**2028E**	**2029E**	**2030E**
Revenue						
Switchgear	$ 120	$ 183	$ 245	$ 325	$ 406	$ 467
Air Handling	$ 10	$ 20	$ 25	$ 31	$ 36	$ 39
ePODs	$ -	$ 35	$ 700	$ 900	$ 1,125	$ 1,350
Total Data Center	$ 130	$ 238	$ 970	$ 1,256	$ 1,567	$ 1,856
YoY Growth						
Switchgear		52%	34%	33%	25%	15%
Air Handling		100%	25%	24%	15%	10%
ePODs		-	1900%	29%	25%	20%
Total Data Denter		83%	308%	29%	25%	18%
Source: Kerrisdale analysis						

With multiple hyperscaler customers, Regal's data center revenue is poised to explode. The company launched its ePOD effort in early 2025, had a $400 million bid pipeline by Q3, and exited Q4 with $735 million of ePOD orders. Those orders will ship in 2027, with a chance some revenue gets pulled into Q4 2026. The company's switchgear revenues have grown at a 30% CAGR over the past five years to reach $120 million in 2025, and the company has guided to an approximate doubling of switchgear revenue over the next two years. Total AMC segment data center orders stand at ~$1 billion with a $600 million bid pipeline. Data center opportunities are also driving atypically large orders and a secular tailwind to PES, where its premium, high efficiency solutions are well-tailored for data center applications. PES won a $20 million order for hyperscaler HVAC chiller subsystems in Q3 2025 and exited the year with a $100 million data center bid pipeline. Taken together, we see a total data center business that can ramp to well over $900 million of revenue in 2027E. And as with many industrial companies, we suspect that Regal will benefit from second and third order data center demand creation, such as construction, aggregates processing, energy infrastructure, and more.

Powering the Physical AI Revolution: Industrial Automation, Robotics, and the Eventual Rise of Humanoids

Industrial automation is a massive market, sized by major industry participants at $200 to $300 billion. Watch any episide of the documentary TV series *How It's Made*, and you will see an endless and fascinating array of conveyor and robotic systems used to move and/or process goods. Regal solutions can be found throughout the universe of manufacturing and logistics applications because they all have one major commonality: the need to generate power and convert that rotational power into linear motion. Industrial robotics have evolved from largely fixed-function to more flexible or programmable operating capabilities, but their achilles heel has always been variability, whether that derives from geometry, operating environment, dexterity, or task diversity.

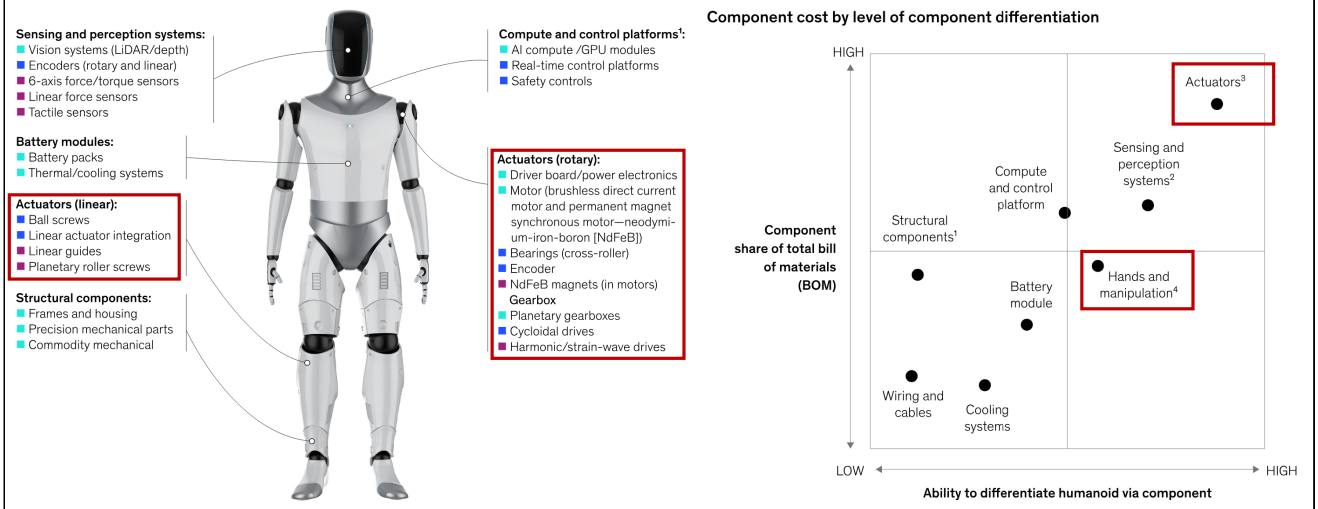
The physical AI revolution aims to solve these issues. AI has accelerated the move from hard-coded, task-specific rules to vision-language-action (VLA) models (mapping sensorimotor inputs to physical movements) and embodied reasoning models (handling high-level task planning, spatial understanding, and context logic). This newfound intelligence, fed by advanced sensor technologies and translated into physical movement by highly engineered precision power and motion control technologies, is revolutionizing the field of industrial robotics. Factories were designed around human beings, so it is logical that advanced industrial robotics will inceasingly incorporate previously unreplicable human dexterity and spatial/context awareness that will greatly expand the scope of work they can perform. Of note, 12% of industrial robots installed in 2024 were collaborative robots (or cobots) designed to work alongside humans. According to the International Federation of Robotics (IFR), industrial robot installations have grown at a 7% CAGR since 2019 to reach almost 4.7 billion units in operation worldwide in 2024, representing an approximate doubling over ten years. The market is poised to explode. Morgan Stanley forecasts the industrial robot installed base will almost double over just the next five years, and then grow 15x over the subsequent 15 years to 155 million units in 2050, representing an $812 billion annual hardware market that year. One must only walk the floor of a Tesla factory or Amazon warehouse to see this future clearly. Not surprisingly, Regal's discrete automation orders were up 18% YoY in Q1.

The evidence clearly points to the development of humanoid robots as the next automation revolution. Admittedly, early humanoids such as Tesla's Optimus or Boston Dynamics' Atlas have been R&D projects more focused on a demonstration of capabilities than immediate commercialization opportunities, which may lead some to sneer cynically at the humanoid hubbub. However, nearly every Magnificent 7 company, as well as OpenAI and SpaceX, has major humanoid initiatives underway. Venture financing for humanoid companies approximately tripled to ~$5 billion in 2025 and has already exceeded that total in 2026, minting unicorns such as Figure AI, Physical Intelligence, Apptronik, and Agility Robotics. BMW started trialing humanoids from Figure AI at its Spartanburg, SC plant in late 2024. Last September, Elon Musk tweeted that *"~80% of Tesla's value will be Optimus."* At CES in January, Hyundai announced plans to deploy Atlas units throughout its global manufacturing footprint and ramp its humanoid capacity to 30,000 units by 2028. Nvidia just released its Isaac GROOT humanoid reference design. Chinese leader Unitree disclosed 2025 humanoid shipments and revenue of 5,500 units and ~$128 million (~$255 million total), respectively, in the company's pending Shanghai IPO prospectus. Heck, China even held the inaugural World Humanoid Olympic Games last August. Like it or not, humanoids are happening. Analysts are understandably hyperventilating at the market opportunity. BAML forecasts a $37 billion humanoid market as soon as 2030. Goldman Sachs expects humanoid revenue to reach $38 billion in 2035, with a blue sky upside potential of $205 billion. Morgan Stanley predicts that AI-enabled robotics will usher in a third industrial revolution and drive $25 trillion of robot revenues by 2050. Perhaps we should just cut to the chase and provide this quote given the source:

> *"Humanoid robotics is going to potentially be one of the largest industries ever."*
>
> — Jensen Huang, NVIDIA CEO, keynote at VivaTech 2025 in Paris

Regal's highly engineered motors, gears, brakes, bearings, and other motion control products provide the vital "muscle" for humanoids. We believe Regal is one of the few companies that can already offer all the 30-40 fully integrated joints on a humanoid. And analogous to the human body, humanoids require a lot more muscle than brain. Many analysts predict these electro-mechanical components will comprise 50-60% of humanoid bills of material, with compute modules (powerful by NVIDIA Jetson or others), sensors, and batteries accounting for the remainder. Barclays, BAML, and McKinsey have all highlighted the strategic importance of integrated actuator assemblies. In addition, markets for these components should benefit from their universal need (regardless of exact robot form factor), scaling with complexity, minimal substitution or insourcing risk, and premium positioning.

The Strategic Importance of Actuators in Humanoid Construction



Source: McKinsey

Forecasts may differ on the near-term slope of the humanoid ramp, with Street projections ranging from 250,000 to 1.2 million units shipped in 2030, but they all show massive hockey sticks by 2050. Our back of the envelope math shows that humanoids (which exclude more traditional industrial robots) could be a multi-hundred million dollar cumulative revenue opportunity for Regal from 2026 through 2030. We use the following assumptions to derive our Regal opportunity forecast: (1) the range of sellside global humanoid unit sales forecasts, (2) China dominates early volumes (50-75% of total), (3) the range of estimated COGS for humanoids produced outside China, (4) 50% of COGS from motors and motion control to derive Regal's served market, and (5) 2.5% market share for Regal. Our share estimate is based on an analysis of global ex-China precision motor and motion control revenue, applying a 50% haircut recognizing some level of early volume insourcing by humanoid OEMs. That said, we note that (1) we have spoken to some analysts who believe Regal could capture 20-30% of the humanoid opportunity, and (2) Regal is certainly advantaged in this market due to its market leading product breadth. The opportunity beyond 2030 could be enormous, with Morgan Stanley predicting annual units increasing from 400,000 in 2030 to over 200 million in 2050, repesenting $7.5 trillion of annual revenue that year.

Illustrative Regal Cumulative 2026 to 2030 Humanoid Revenue Opportunity				
		Low		High
Cumulative Global Humanoid Units, 2026-2030		650,000		2,800,000
Ex-China Unit Share		25%		50%
US Market COGS per Unit	$	50,000	$	85,000
Total US COGS ($M)	$	8,125	$	119,000
Motion Control Share of COGS		50%		50%
Regal Addessable Market ($M)	$	4,063	$	59,500
Regal Revenue at 2.5% Share ($M)	$	102	$	1,488

Source: BAML, Barclays, Goldman Sachs, and Morgan Stanley research, Kerrisdale analysis

Regal's Kollmorgen, Portescap, Thomson, and other brands are highly respected global leaders offering precision components that map well to humanoid needs, and we expect the company will be a key enabler driving the evolution of industrial robotics. Notably, many of the humanoid bill of materials analyses out there that highlight potential suppliers reference these lesser known brands, thus obscuring Regal's position and its unrivaled product breadth. For example, last August, Regal announced a partnership with ABB Robotics (subsequently acquired by Softbank) to facilitate the integration of its 7th axis Cobot Transfer Units (CTUs) with ABB cobots. The Regal solution demonstrates its scope of technical expertise by leveraging the capabilities of four different brands: Thomson (linear motion components), Kollmorgen (motors) Boston Gear (gear drives/reducers), and Huco (couplings). We believe Regal already sells into most of the current Western humanoid leaders, including Tesla and Boston Dynamics, and the company has some visibility on humanoid revenue, having booked ~$40 million of humanoid orders in 2025, albeit largely for prototypes.

Morgan Stanley Total Robotics Component Forecast Through 2050

Source: Morgan Stanley research

Manufacturing capability is vital to comparative advantage, national defense, and citizen employment levels. Recent trade issues surrounding rare earths and semiconductors have highlighted the strategic importance of domestic sourcing and production capabilities. Thus, the US government has sought to stimulate reshoring activity. China accounted for 43% of installed industrial robots in 2024 and 54% of new installations that year, and the Chinese government made robotics innovation a key objective of its recent 15th Five Year Plan (2026-2030). Chinese carmakers BYD, Geely, FAW-Volkswagen, Dongfeng, and Foxconn have all deployed humanoids already. More importantly, China dominates the modern robotics supply chain. This raises the possibility that Regal becomes a strategic national asset and that the company may someday benefit from stimulative industrial policy in the same way that semiconductor companies have recently.

Aerospace & Defense, eVTOL, and Medical Add to Secular Tailwinds

Regal products can be found on nearly every commercial and military aircraft and most business jets and helicopters in service today, and the company has extended its reach into new markets such as space satellites, launch vehicles, ground systems, drones, missiles, guided ordnances, and a variety of modern weapons systems. Through its leading Rexnord Aerospace, Kollmorgen, Portescap, Delvan, and Thomson brands, Regal supplies a broad range of highly engineered bearings, seals, gears, precision motors, clutches, brakes, resolvers, and ball screws. These components, as well as higher level assemblies, enable crucial sub-systems such as flight and environmental controls, fuel pumps, engines/transmissions, and landing gear, among many others. Aerospace & defense contributed about 7% of Regal revenue in 2025 and is positioned for continued growth. Commercial aerospace demand is locked in for the next decade. Airbus continues to dominate the global order book, and Boeing deliveries are rebounding after years of regulatory, quality-control, and supply chain issues. The proposed $1 trillion US defense budget for 2026 represents the largest nominal value in history, and the White House has already proposed $1.5 trillion for 2027, driven by massive investments in next-generation platforms. NATO military budgets are increasing at a historic pace, marking the sharpest rearmament drive since the end of the Cold War. NATO countries have committed to increase their defense spending as a percent of GDP from the previous 2% to 5% by 2035. Add to that active conflicts in Ukraine and the Middle East. Despite Regal reporting a dramatic 76% YoY A&D order growth in Q1 and widespread bullishness on defense stocks, the company seems to be one of the few A&D-exposed names not getting much valuation uplift.

Regal Rexnord Aerospace & Defense Portfolio and Applications

Source: Regal Rexnord

Leveraging its A&D expertise, Regal has developed an electro-mechanical actuator for electric vertical take-off and landing (eVTOL) aircraft. The system integrates numerous Regal

components, including stepper motors, gears, bearings, seals, electric brakes, and multiple sensors. The company has partnered with Honeywell to take advantage of their flight control system integration and certification expertise. We have publicly expressed our doubts concerning Joby and the eVTOL industry as a whole, but if the market still ascribes a $9 billion market cap to Joby, it might as well confer value to Regal too.

Recent Notable Regulatory and Commercial eVTOL Advancements	
February 2026	Congress introduced the Aviation Innovation and Global Competitiveness Act (S.3866), which aims to dramatically accelerate FAA certification timelines.
March 2026	The White House formally signed the eVTOL Integration Pilot Program (eIPP) into accelerated rollout, representing the most significant US federal commitment to and coordination of commercial eVTOL operations. The eIPP named six US cities in the first cohort and contemplates first revenue operations in 2027 and full multi-city commercial scale in 2028.
March 2026	The FAA finalized the Powered-Lift Operations and Pilot Training Rule (Part 194), closing one of the last regulatory gaps before commercial service can begin.
April 2026	Joby entered FAA Stage 4 – Type Inspection Authorization, the final stage before US Type Certification. Joby also crossed 1,000 test flights and conducted a New York City demo flight.
April 2026	Archer and United Airlines unveiled their plans for a Los Angeles 2028 Olympic route map.

Source: Kerrisdale analysis

Regal has indicated a $220,000 ship set opportunity per vehicle, and the company likely has design wins at both industry leaders Joby and Archer. Based on disclosed near-term target capacities, one can estimate an 1,800 unit opportunity for 2030, which would translate to $200 million in revenue for Regal.

Kerrisdale eVTOL Opportunity Analysis

eVTOL Company Consensus Revenue Estimates and Capacity Guidance

Company	2025	2026E	2027E	2028E	2029E	Target Capacity
Joby Aviation	$ 53	$ 112	$ 222	$ 458	$ 1,079	500 units
Archer Aviation	$ 0	$ 9	$ 94	$ 482	$ 1,430	650 units
Eve Holding	$ -	$ -	$ 10	$ 349	$ 846	480 units
Vertical Aerospace	$ -	$ -	$ -	$ 46	$ 179	175 units
Total	$ 54	$ 121	$ 326	$ 1,336	$ 3,534	1,805 units
YoY Growth		125%	169%	310%	165%	

Regal 2030 eVTOL Revenue Opportunity

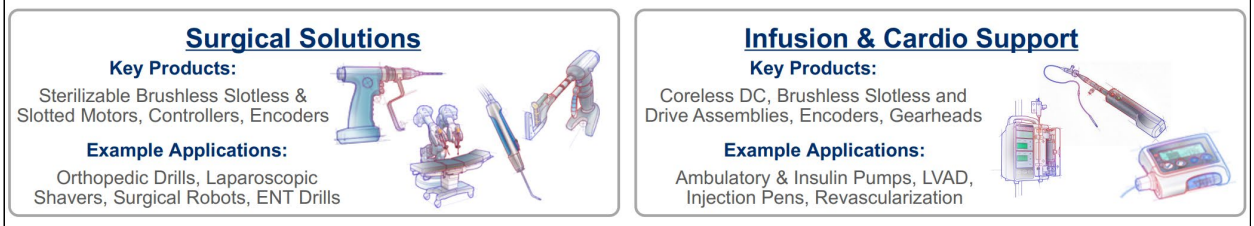
	2030E
Annual Units	1,805
Estimated Regal Market Share	50%
Regal Units	903
Average Content per Unit ($M)	$ 0.220
Regal Revenue ($M)	$ 199

Source: S&P Capital IQ, company earnings calls and press releases, Kerrisdale analysis

Regal's automation and motion control expertise extends to miniaturized powertrains for medical devices and surgical robots. Offered by its AMC segment, these products include a full range of high performance, highly engineered motors, controllers, and encoders and high precision linear motion mechanical components used in surgical robots, medical hand tools/devices, infusion systems, respiratory care applications, and patient tables. The company has noted that some medical applications can use over 50 different Regal products, creating meaningful cross-selling opportunities. Notably, Regal supplies the compact and high precision powertrains used in the "arms" and "fingers" of leading innovator Intuitive Surgical's (ISRG) da Vinci machine. The company also supplies precision micromotion products used in fluid dispensing and sample processing in diagnostic testing machines and miniaturized integrated powertrains for medical injector pens. Such applications require exceptionally high positional accuracy and smooth motion. Driven by an aging population, longer life expectancy, and the

rapid pace of surgical and diagnostic testing innovation, Regal expects the market for robotic surgery equipment to grow at a mid-teens CAGR. The company is emerging from a frustrating 2025 characterized by medical destocking, but the signs of a rebound emerged in Q1, with orders up 53% YoY.

Regal Rexnord Medical Products and Applications



Source: Regal Rexnord

General Industrial Greenshoots

Even some of Regal's less sexy end markets are seeing new growth catalysts and inflecting demand.

- Food and Beverage (21% of AMC revenue). The proliferation of new beverage brands and categories, regulatory pressures to use recycled materials that require line modifications, and the increasing adoption of smart automation are driving the market for processing and packing equipment that use Regal products. In fact, a major Regal distributor with whom we spoke noted that dairy was one of his hottest markets.
- Mining (24% of IPS revenue). 2026 is expected to represent the fourth consecutive year of YoY growth in large miner capex (Big 4: BHP, RIO, AAL, GLEN). Misguided as it may be, the Trump Administration has taken numerous actions to reinvigorate the American coal industry. This plays into one of Regal's sweet spots: heavy-duty conveyor solutions for natural resource extraction.
- Oil and gas (18% of IPS revenue). Similarly, actions by the Trump administration have been stimulative for fossil fuel infrastructure investment.
- Warehouse logistics. Regal is a leading supplier of warehouse conveyor and automation technologies used in the most advanced facilities. Thus, Regal should be viewed as a key enabler and beneficiary of Amazon's burgeoning logistics empire.
- Pharmaceutical manufacturing. BAML Research recently highlighted that pharma companies are in the middle of a material reshoring effort and detailed the plans of 20 companies to spend nearly $470 billion on new or expanded manufacturing facilities by 2030. Regal is a leading supplier of automation solutions for the industry.

PES Just Needs to Not Blow; The Cash It Generates is Green Too

Regal's PES segment supplies premium, high efficiency electric motors and air moving solutions and is often vilified for its heavy HVAC exposure, higher seasonality, lower relative pricing power (more competitors targeting a concentrated customer base), and lower EBITDA

margins (in part due to its 75% / 25% OEM / aftermarket mix). 27% of segment revenue comes from residential HVAC, which admittedly has been weak for several years given housing market headwinds. While PES clearly provides manufacturing economies of scale that benefit Regal's other segments, there is no question that the company's growth and margin profile, and thus its valuation multiples, would be enhanced by the divestiture of PES. We expect the disposition of PES to be a top agenda item for incoming CEO Aamir Paul.

That said, PES has generated over $1.6 billion of adjusted EBITDA over the past five years, providing a decent slug of the cash required to fund Regal's transformational M&A deals. Under CEO Pinkham, Regal has rationalized the product portfolio by eliminating less profitable SKUs and divested its commodity industrial motors business. These actions have been a headwind to reported revenue but should produce margin benefits in a healthier demand environment. We believe a recovery has begun and highlight that PES has some attractive growth drivers of its own. Regal recently disclosed that North American commercial HVAC has grown mid-teens the past couple years, and recent AHRI monthly residential HVAC shipment YoY growth rates have recovered from their deep trough in Q4 2025.

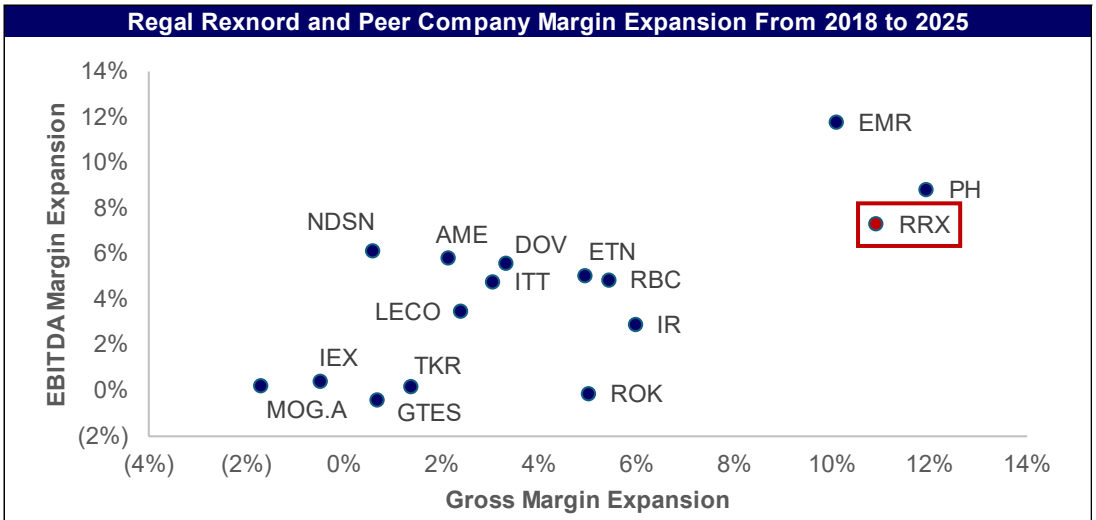
PES is also benefiting from growth in data center applications where it supplies air handling subsystems to companies such as Vertiv, SPX Technologies, and Comfort Systems, all of which have received outsized investor attention for their attractive growth. Similarly, Modine shares recently surged 14% on the announcement of a $4 billion supply agreement with a data center customer for its Airedale cooling products. In addition, PES is seeing increased activity from semiconductor cleanroom capacity additions, with management highlighting a $7 million order for cleanroom fan filter units in Q3 2025. PES should also benefit from regulatory initiatives driving demand for higher efficiency motors in multiple markets, as well as the adoption of heat pumps that incorporate Regal blowers and fans, an opportunity Regal sized at $70 million at its 2024 investor day. Finally, Regal management commented in early May that the PES segment is actually poised to benefit from revisions to Section 232 tariffs. Given Regal's products have high US steel content in its motors, they are attractive to OEM customers seeking to increase their US-sourced metal content to qualify for lower tariff rates upon finished good import into the US. Ultimately, PES doesn't need to demonstrate explosive growth to earn its place in the Regal stable; it simply needs to not detract from Regal's improved positioning.

Regal's Financial Transformation Is Underappreciated

Regal Rexnord's Financial Transformation	2018	2025
Revenue	$ 3,646	$ 5,934
Customer Concentration (1)	~24%	~11%
Percent From PES (or Predecessor)	77%	28%
Backlog / FY+1 Revenue (2)	15%	29%
Gross Margin	26%	37%
Adj. EBITDA	$ 538	$ 1,307
Adj. EBITDA Margin	15%	22%
Adj. Free Cash Flow	$ 285	$ 893
Adj. Free Cash Flow Margin	8%	15%

(1) Top 10 OEM customer sales as a percent of total
(2) Excludes ePOD backlog for 2027, assumes consensus 2026E revenue
Source: Regal Rexnord, S&P Capital IQ, Kerrisdale analysis

Regal is a far different company than it was just 5 to 7 years ago. The Rexnord and Altra transactions have doubled revenue and added significant exposure to exciting secular growth themes. As a result, the PES segment, essentially the legacy Regal Beloit, has decreased from 77% to 28% of revenue, and Regal's anticipated data center revenue explosion will decease that figure further. Dampened cyclicality has improved business stability and predictability. In fact, Regal's enhanced revenue visibility is seen in the marked increase in backlog coverage, as year end backlog as a percentage of following year revenue has roughly doubled from 15% in 2018 to 29% exiting 2025, excluding ePOD orders expected to ship in 2027 and assuming Street consensus for 2026E revenue. At the same time, improved operational discipline, better product mix, enhanced competitive positioning, and merger synergies have put Regal among an elite group of industrial margin expanders. Gross margins improved nearly 11 percentage points from 2018 to 2025. Over the same period, Regal's industrial peers managed a median improvement of just three percentage points. And while much has been made of the business transformation executed by peer Parker-Hannifin, it only delivered ~100bps more of gross margin expansion over Regal. Similarly, Regal's adjusted EBITDA margin expansion of over seven percentage points easily outperforms the peer median of 470bps. Importantly, these improvements have been achieved despite an industrial recession. We believe even a modest industrial recovery will allow Regal to demonstrate its newfound earnings power. Ultimately, we believe Regal can enter the industrial compounder elite alongside peer RBC Bearings.



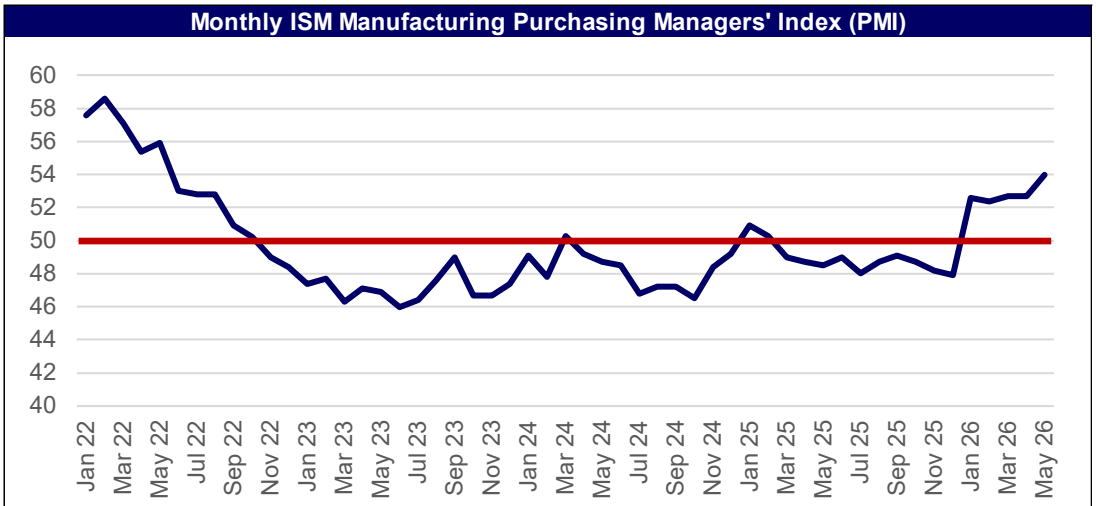
Source: S&P Capital IQ, Kerrisdale analysis

Potential For Significant Upside to Street Consensus

Over the past five years, Regal management has been stung by its repeated failure to meet guidance, though the culprit has been more a challenging macro backdrop as opposed to irrational optimism. Regardless, the result is a gun-shy analyst community that seems unwilling to stick its neck out despite increasing clarity on Regal's potential. And as some Regal analysts will admit, they don't need to publish an aggressive forecast to justify attractive stock upside, so why bother.

Short-cycle Recovery Appears Imminent

Evidence suggests a short-cycle industrial recovery is taking hold. From November 2022 to January 2026, the ISM PMI registered contractionary values below 50 for all but three months. However, the PMI has shown a sustained sharp recovery year to date, recently hitting 54 in May. As another leading indicator, semiconductor sales into industrial markets were up 25% YoY in Q1 and marked their eighth consecutive quarter of acclerating YoY trends. In Q1, Regal reported exceptionally strong 28% YoY order growth in its AMC segment (ex-data center), but perhaps more telling was high-single-digit short-cycle IPS (or OEM) YoY order growth and PES order outperformance on the back of continued strength in commercial HVAC and signs of a bottoming in residential HVAC.



Source: Institute for Supply Management

Looking forward, monetary policy is likely to be accommodative under a Warsh-led Federal Reserve, and the Trump Administration has taken broad steps to reduce regulatory friction, stimulate investment, and incentivize manufacturing reshoring. In July 2025, Trump signed an executive order to accelerate permitting and remove other regulatory barriers for large-scale projects such as data centers, energy infrastructure, and manufacturing facilities that meet capital, power, or national security thresholds. In addition, the bonus depreciation provisions in the One Big Beautiful Bill Act are very likely to spur manufacturing capital investment.

The Case of the Missing Revenue

Consensus Regal 2026 revenue and EBITDA growth of 5% each rank third lowest among Regal's peers and well below peer medians of 7% and 9%, respectively. Consensus revenue estimates are even more conservative beyond 2026. Regal management recently guided to approximately $900 million of data center revenue in 2027 and additional growth on top of that in 2028. When we back out our Regal data center revenue forecast from consensus estimates to calculate the implied growth of its remaining business, we get growth rates that pale in comparison to Regal's historical performance, are a fraction of those expected by its industrial peers, and fail to give Regal credit for its robust secular tailwinds.

Implied Consensus Regal Rexnord Revenue Growth ex-Data Center Versus Peers

($ in millions)	2025	2026E	2027E	2028E
Consensus Revenue	$ 5,935	$ 6,231	$ 7,069	$ 7,414
Kerrisdale Data Center Revenue Forecast	$ 130	$ 238	$ 970	$ 1,256
Implied Consensus Revenue ex-Data Center	$ 5,805	$ 5,993	$ 6,099	$ 6,158
Implied YoY Growth		3.3%	1.8%	1.0%
Industrial Peer YoY Consensus Revenue Growth				
Max		37.3%	10.6%	9.0%
Median		6.8%	5.6%	6.0%
Min		3.8%	3.5%	3.1%

Source: S&P Capital IQ, Kerrisdale analysis

Multiple Margin Expansion Catalysts

Consensus EBITDA margins for 2026, which sit 20bps below management guidance, set an extremely low bar for 2026 and 2027. Regal has significant commodity exposure spanning steel, copper, aluminum, and rare earth magnets. The latter has been particularly troublesome, as the Chinese government, which controls 90% of global supply, has restricted rare earth exports in response to US trade policy. Rare earths have been an issue for the past four quarters and were a 50bps headwind for AMC throughout 2025. However, the company sees supply loosening up, which should begin to create favorable YoY comparisons. In addition, Regal was arguably among the most poorly positioned among its peers for the tariff disruption of 2025 given its international manufacturing footprint. However, tariff headwinds are abating in 2026. Regal has revised the 2026 unmitigated tariff impact down to $127 million but expects to be dollar cost neutral by mid-year and margin neutral by year end. Gross margins have also been pressured by mix, as relatively stronger recent OEM sales created an incremental 100bps headwind. Regal expects a reversion to a more typical OEM/aftermarket mix through year end. Finally, Regal appears confident that gross margins can recover in its AMC segment. The 2025 medical destocking contributed to a 146bps gross margin decline for AMC last year. However, Regal has disclosed that current AMC backlog has an end market mix heavy in its highest margin applications such as medical and automation, suggesting healthy margin expansion in 2H 2026. Finally, Regal management materially de-risked its 2026 guide by excluding an anticipated $40 million of cost synergies that equate to 65bps of margin based on guided revenue.

Our Forecast Remains Conservative

Kerrisdale Forecast Versus Regal Rexnord 2026E Guidance

	Kerrisdale Forecast		Company Guidance	
	YoY Rev Growth	Adj EBITDA Margin	YoY Rev Growth	Adj EBITDA Margin
AMC	10.9%	20.5%	+HSD	20-21%
IPS	4.8%	26.5%	+MSD	26-27%
PES	0.3%	17.0%	~Flat/LSD	16-17.5%

Source: Regal Rexnord, Kerrisdale analysis

Our forecast is generally in line with Regal guidance for 2026. Yet our forecast for 2027 and 2028 deviates from consensus in two ways. First, we give Regal credit for its anticipated data center growth and then assume more typical mid-cycle growth rates for AMC that acknowledge its superior secular exposure. Notably, we do not assume the sharp double-digit growth rates that often accompany an inflection off depressed levels, and we exclude any upside from humanoids and eVTOL from our out year forecast. Second, even after accounting for the potential margin dilution of ePODs (guidance of “20%+” versus low 20s for the remainder of AMC), we model management’s anticipated gradual return to 24% adjusted EBITDA margins for AMC. These assumptions yield 10% and 17% EPS upside to consensus in 2027 and 2028, but even a modestly stronger short-cycle inflection could power upside far beyond these levels.

Kerrisdale Forecast Versus Consensus			
($ in millions)	**2026E**	**2027E**	**2028E**
Consensus			
Revenue	$ 6,231	$ 7,069	$ 7,414
Adj. EBITDA	$ 1,374	$ 1,588	$ 1,690
Adj. EPS	$ 10.65	$ 13.54	$ 15.25
Kerrisdale			
Revenue	$ 6,248	$ 7,279	$ 7,853
Adj. EBITDA	$ 1,388	$ 1,676	$ 1,892
Adj. EPS	$ 10.86	$ 14.88	$ 17.85
KCM vs Consensus			
Revenue	0%	3%	6%
Adj. EBITDA	1%	6%	12%
Adj. EPS	2%	10%	17%
Source: S&P Capital IQ, Kerrisdale analysis			

Material Debt Reduction and Capital Allocation Revival Coming Soon

In the ten years before Covid, Regal generated an average $265 million of free cash flow per year. By 2025, free cash flow more than tripled to $893 million. Regal's data center thrust is undemanding from a capital expenditure standpoint: the $5 million investment in its Texas facility should support several hundred million dollars of incremental revenue. However, significant working capital investment will be required to support what we forecast to be over $700 million of new revenue in 2027. As a result, the company has guided to free cash flow of $650 million in 2026. We expect a return to form in 2027 and forecast nearly $1 billion of free cash flow. Thus, Regal should generate over $1.6 billion of free cash flow over the next two years, presenting numerous opportunities for shareholder value creation.

The strategic and financial benefits of the Rexnord and Altra deals are undeniable, but the timing was somewhat unfortunate. Regal entered a multi-year industrial recession with a highly leveraged balance sheet, which only bolstered any sentiment headwinds. The Altra transaction closed in March 2023, and Regal exited that quarter with 4.4x net debt / LTM EBITDA. Through its concerted efforts, the company has reduced that to 3.3x exiting Q1. However, Regal's high leverage still stands out, as it has nearly double the median net leverage of its industrial peers which generally fall between 1.5x to 2.2x. Most of Regal's cash flow will be directed to debt reduction, with Regal targeting a return to 1.5x, which it can achieve by early 2028.

In addition, Regal management has guided to the resumption of share repurchases once net leverage drops to 2.5x, expected by year end 2026. Ultmately, we also see room for a dividend increase. Regal's dividend has been unchanged since Q2 2022, and the company's current yield of 0.7% trails the peer median of 1.0%.

Regal's Discount Won't Persist; We See At Least 100% Upside

Over the past five years, Regal shares traded largely flat until early February when the market took initial notice of its emerging secular growth opportunities. Since then, Regal shares are up 39%. Regal hasn't witnessed much multiple expansion and has averaged a mere 10.8x EBITDA since the Altra deal closed. Our primary comparable company group for Regal includes 15 diversified industrials with broadly similar scale, margin, and growth profiles or analogous exposure to manufacturing automation broadly. Even after Regal's modest YTD gains and assuming consensus estimates, the company trades at a steep discount to its peers. Based on 2027E consensus, Regal trades at 2.7x revenue, 12.2x EBITDA, and 16.3x non-GAAP EPS, which represent a massive 30% to 41% discount to its peers depending on the metric. This discount only increases when valued off our own forecast.

Regal Rexnord Comparable Company Analysis

($ in millions)	Market Overview			LTM			Consensus YoY Revenue Growth		CY2027E Multiples		
Company	Stock Price	1-Year Return	Market Cap	Revenue	Gross Margin	EBITDA Margin	CY2026E	CY2027E	EV / Revs	EV / EBITDA	P / E
Diversified Industrial											
AMETEK	$ 237.72	32%	$ 54,486	$ 7,598	37%	32%	8%	6%	6.7x	20.5x	26.9x
Dover	$ 224.00	22%	$ 30,164	$ 8,280	40%	23%	7%	5%	3.5x	14.8x	19.5x
Eaton	$ 408.26	16%	$ 158,527	$ 28,522	37%	22%	17%	11%	5.0x	20.3x	25.8x
Emerson Electric	$ 142.82	7%	$ 79,993	$ 18,316	53%	32%	5%	5%	4.6x	15.6x	19.7x
Gates Industrial	$ 28.15	22%	$ 7,147	$ 3,447	40%	21%	4%	4%	2.4x	10.3x	15.2x
IDEX	$ 225.96	28%	$ 16,724	$ 3,530	44%	27%	5%	5%	4.7x	17.5x	24.6x
Ingersoll Rand	$ 80.98	-4%	$ 31,690	$ 7,781	43%	26%	4%	4%	4.3x	15.4x	21.1x
ITT	$ 190.40	21%	$ 17,022	$ 4,237	35%	22%	37%	9%	3.5x	14.6x	20.6x
Lincoln Electric Holdings	$ 264.33	26%	$ 14,604	$ 4,350	36%	19%	9%	5%	3.2x	15.7x	22.4x
Moog	$ 425.85	135%	$ 13,487	$ 4,171	27%	14%	7%	7%	3.1x	21.0x	24.0x
Nordson	$ 302.16	40%	$ 16,836	$ 2,904	55%	31%	6%	6%	5.9x	18.2x	23.6x
Parker-Hannifin	$ 963.79	38%	$ 121,521	$ 20,987	37%	26%	7%	6%	5.6x	20.1x	26.7x
RBC Bearings	$ 634.78	66%	$ 20,024	$ 1,871	45%	31%	15%	10%	9.3x	27.6x	39.8x
Rockwell Automation	$ 482.33	46%	$ 53,671	$ 8,804	49%	22%	6%	6%	6.0x	24.1x	32.1x
Timken	$ 143.50	96%	$ 9,972	$ 4,673	31%	17%	5%	4%	2.4x	12.6x	20.5x
Median		**28%**			**40%**	**23%**	**7%**	**6%**	**4.6x**	**17.5x**	**23.6x**
Data Center Focus											
Comfort Systems	$ 1,948.69	264%	$ 68,486	$ 10,136	25%	17%	31%	18%	4.8x	26.0x	36.5x
Forgent Power Solutions	$ 54.99	NA	$ 13,424	$ 1,196	34%	14%	79%	34%	5.9x	22.9x	32.2x
nVent Electric	$ 163.35	123%	$ 26,417	$ 4,326	37%	21%	28%	14%	4.9x	21.6x	28.9x
Powell Industries	$ 281.09	296%	$ 10,241	$ 1,132	30%	20%	10%	21%	6.5x	29.7x	38.9x
Vertiv Holdings	$ 306.97	141%	$ 117,910	$ 10,843	37%	22%	36%	28%	6.7x	25.5x	33.8x
Median		**203%**			**34%**	**20%**	**31%**	**21%**	**5.9x**	**25.5x**	**33.8x**
Regal Rexnord (Consensus)	**$ 219.88**	**50%**	**$ 14,753**	**$ 5,996**	**38%**	**20%**	**5%**	**13%**	**2.7x**	**12.2x**	**16.3x**
							Discount to Diversified Industrial		(41%)	(30%)	(31%)
Regal Rexnord (Kerrisdale)							**5%**	**16%**	**2.7x**	**11.5x**	**14.8x**
							Discount to Diversified Industrial		(42%)	(34%)	(37%)

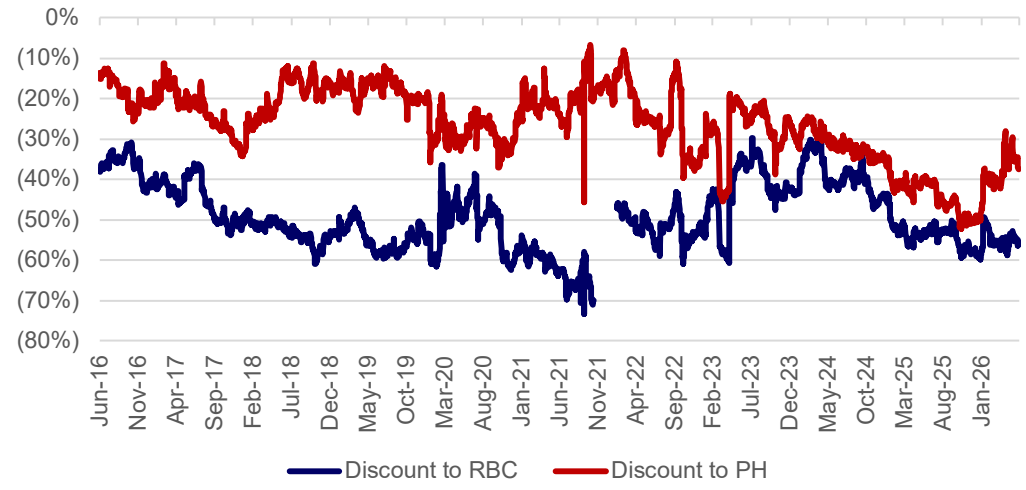
Source: S&P Capital IQ, Kerrisdale analysis

One factor constraining Street price targets is an analyst bias toward referencing historical trading multiple ranges. We can't think of a more punitive or misguided methodology for Regal since it fails to properly acknowledge the enormity of the company's corporate transformation. The "new" Regal is simply a different animal, yet the markets have yet to fully take notice.

Endowed with the "compounder" label, the highest valued of Regal's comp group is RBC Bearings, which also happens to be a direct competitor. Regal has rightly traded at a discount to RBC over the past decade, but we would have expected that gap to close as Regal became a

stronger competitor with an improved growth and margin profile. In fact, the opposite has occurred. Regal's EBITDA multiple discount to RBC sits near historic highs. In fact, the same holds for peer Parker-Hannifin, which unlike Regal has received credit for its operating improvements. We expect these discounts to close as Regal demonstrates it too deserves the coveted "compounder" label.

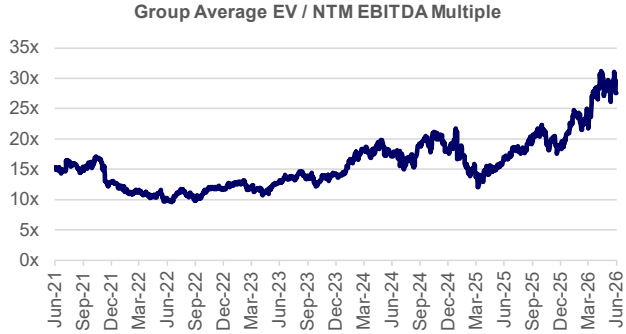
Regal Rexnord EV / NTM EBITDA Discount Relative to RBC Bearings and Parker-Hannifin



Source: S&P Capital IQ

It's also instructive to examine how industrials with exposure to the data center power theme have fared, particularly since several are either current customers and/or competitors to Regal. Data center cooling and power equipment vendors Comfort Systems, Eaton, Modine, nVent, Powell, and Vertiv have seen a median 60% EBITDA multiple expansion over just the past year as investors have taken notice of how data center exposure can juice revenue growth. Similarly, consumer-oriented backup generator company Generac's shares are up 88% since first disclosing the existence of hyperscalers in their order pipeline (not even backlog!) on the company's Q2 2025 earnings call. Regal's comparable business is poised to almost double in 2026 and then quadruple in 2027, meaning data center revenues will grow from 3% to 13% of total revenue in just two years. However, it has seen no such multiple expansion.

Data Center-Exposed Power and Cooling Peer Group Multiple Expansion



Company	Current EV / NTM EBITDA	LTM Expansion	DC / Total Revenue (1)
Comfort Systems USA	31.0x	69%	56%
Eaton	22.4x	2%	25%
Modine Manufacturing	21.0x	60%	42%
nVent Electric	24.3x	59%	25%
Powell Industries	36.3x	265%	7%
Vertiv Holdings	32.7x	41%	80%
Median	**27.6x**	**60%**	**33%**

(1) Estimated from multiple sources
Source: S&P Capital IQ

We triangulate on our Regal price target using multiple methodologies, but they all return the same conclusion: there is 100% upside in Regal shares. Given Regal's superior growth profile looking into 2027, the company should trade more in-line with its diversified industrial peers, which would imply EBITDA multiple expansion from the current 12.2x (based on consensus) to 17.5x. However, in order to properly assign value to Regal's data center opportunity and its disparate segments, we focus on a sum-of-the-parts analysis using our 2027E forecast and a more precise set of peer EBITDA multiples. This analysis suggests 81% upside to almost $400 per share.

Regal Rexnord Sum-of-the-Parts Valuation Based on 2027E Forecast and Multiples

Segment	Revenue	Adj. EBITDA	Adj. EBITDA Margin	EV / 2027E EBITDA	Enterprise Value	Comparables
Data Center	$ 970	$ 204	21.1%	25.5x	$ 5,212	Data center median
AMC (ex-DC)	$ 1,762	$ 392	22.2%	20.5x	$ 8,015	AMC median
IPS (ex-DC)	$ 2,847	$ 775	27.2%	17.5x	$ 13,529	Broad industrial median
PES (ex-DC)	$ 1,699	$ 305	18.0%	14.7x	$ 4,495	Low-multiple HVAC OEMs
Total	$ 7,279	$ 1,676	23.0%		$ 31,251	
			Cash		$ 401	
			Debt		$ 4,965	
			Market Capitalization		$ 26,688	
			Shares Outstanding		67	
			Implied Price		$ 397.75	
			Current		$ 219.88	
			Implied Upside		**81%**	

Source: Kerrisdale analysis

By mid-2027, investors will have greater visibility on Regal's data center revenue ramp (particularly into 2028) and AMC segment EBITDA margin expansion. This should justify a revision of Regal's comparable company group, removing those with less impressive growth and/or margin profiles and focusing on a higher quality subset, namely Ametek, Eaton, Parker-Hannifin, and Rockwell Automation. Applying this revised comparable group CY+1 EBITDA multiple of 20.4x to either consensus or Kerrisdale 2028E EBITDA and discounting back one year at Regal's 8% WACC yields over 100% upside potential.

Regal Rexnord Discounted 2028E Valuation

($ in millions)	Consensus	Kerrisdale
2028E EBITDA	$ 1,690	$ 1,892
Current CY+1 (2027E) EV / EBITDA Multiple	20.4x	20.4x
Implied Enterprise Value	$ 34,427	$ 38,548
Est. YE 2027 Cash	$ 186	$ 186
Est. YE 2027 Debt	$ 3,307	$ 3,307
Implied Market Capitalization	$ 31,307	$ 35,427
Shares Outstanding (1)	67	67
Implied Stock Price at Mid-2027	$ 468.67	$ 530.35
RRX WACC	8.0%	8.0%
Stock Price Discounted 1 Year	$ 434.04	$ 491.17
Current Price	$ 219.88	$ 219.88
Implied Upside From Current	**97%**	**123%**

(1) Assumes no share repurchases through YE2027
Source: Kerrisdale analysis

Finally, we perform a 10-year discounted cash flow analysis based on our forecast, which assumes 5% revenue growth in 2030 and beyond, effectively excluding the humanoid and eVTOL opportunities and heavily discounting data center growth beyond 2028. Assuming a 20x LTM EV / EBITDA exit multiple based on the current industrial peer median and Regal's 8% WACC, we derive a $424 target price, implying 93% upside.

Regal Rexnord Discounted Cash Flow Analysis

	Historical			Projected									
($ in millions, FYE December)	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Revenue	6,251	6,034	5,934	6,248	7,279	7,853	8,442	8,864	9,307	9,772	10,261	10,774	11,313
EBIT	767	766	773	860	1,149	1,365	1,435	1,507	1,582	1,661	1,744	1,832	1,923
Income Tax Expense	181	154	175	211	280	336	359	377	396	415	436	458	481
EBIAT	586	611	598	649	868	1,028	1,076	1,130	1,187	1,246	1,308	1,374	1,442
Plus: Depreciation & Amortization	493	512	501	496	496	496	516	524	532	539	545	551	556
Less: Capital Expenditures	119	110	98	120	146	157	169	177	186	195	205	215	226
Less: Inc./(Dec.) in Working Cap.	598	(58)	204	(204)	(43)	(1)	42	44	47	49	51	54	57
Unlevered Free Cash Flow	362	1,072	797	1,229	1,261	1,367	1,381	1,432	1,486	1,540	1,597	1,655	1,715
Discount Period (mid-year)				0.5	1.5	2.5	3.5	4.5	5.5	6.5	7.5	8.5	9.5
Discount Factor				0.96	0.89	0.83	0.76	0.71	0.66	0.61	0.56	0.52	0.48
Present Value of Unlevered FCF				1,183	1,124	1,129	1,056	1,014	974	935	898	862	827

Valuation	
Terminal Value	49,575
PV of Terminal Value	23,012
PV of Cash Flows	10,002
Enterprise Value	33,014
Less: Total Debt	4,965
Plus: Cash and Equivalents	401
Equity Value	28,450

Per Share Derivation	
Basic Shares Outstanding	66.6
Dilutive Shares	0.5
Fully Diluted Shares Outstanding	67.1
Price Per Share	$ 424.02
Current Price	$ 219.88
Implied Upside	**93%**

Assumptions	
Risk-free Rate (10yr T-Note)	4.5%
Equity Beta	1.10
Equity Risk Premium	5.5%
Cost of Equity	10.5%
Cost of Debt	6.8%
Marginal Tax Rate	25.0%
After-tax Cost of Debt	5.1%
Target Percent Equity	75.8%
Target Percent Debt	24.2%
WACC	8.0%
Terminal Multiple (LTM EBITDA)	20.0x

Source: Regal Rexnord financial disclosures, S&P Capital IQ, Kerrisdale analysis

Thus, even assuming a relatively conservative forecast, we see an easy path to 100% upside in Regal shares.

Regal Rexnord Share Price Upside by Methodology

Methodology	Price	Upside
Sum-of-the-Parts Analysis Based on 2027E	$ 397.75	81%
Discounted 2028E EBITDA-Based Valuation	$ 491.17	123%
Discounted Cash Flow Analysis	$ 424.02	93%
Average	**$ 437.65**	**99%**

Source: Kerrisdale analysis

Conclusion

Set aside anything you once thought about Regal if it predates the past twelve months. Regal's data center business is about to grow from rounding error to ~$1 billion. The company is poised to ride the growing wave of investor interest in physical AI and humanoid robotics. Numerous secular growth opportunities are inflecting, and even a modest short cycle industrial recovery can supercharge results to drive material upside to conservative Street consensus. The company is trading at a massive discount to other industrials, even those lacking any similarly exciting growth opportunities. We believe Regal shares are about to find their proper gear and actuate our portfolio higher.

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