

## Rockwell Automation (ROK)

**\$167.80** (As of 04/08/20)

Price Target (6-12 Months): **\$178.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 08/27/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**3-Hold**

Zacks Style Scores:

VGM:D

Value: D

Growth: B

Momentum: F

### Summary

Rockwell Automation expects fiscal 2020 earnings per share between \$8.70 and \$9.10, indicating year-over-year growth of 3% at the mid-point. The slowdown in U.S. manufacturing activity, weakness in the automotive, semiconductor and chemical markets and impact of the coronavirus outbreak, remain concerns. Estimates for the current fiscal year have gone down recently. Further, net interest expense, operating pension expense and currency are anticipated to remain headwinds in fiscal 2020. The company plans to cut costs to mitigate the impact of weak due to the coronavirus outbreak. Results will be driven by improvement in Hybrid industries such as Life Sciences, Food & beverage, and Tire markets. Going forward, growth in Information Solutions and Connected Services, acquisitions and inorganic investments will drive growth.

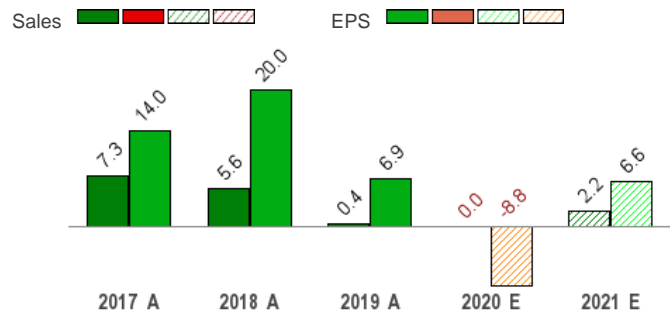
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	\$209.61 - \$115.38
20 Day Average Volume (sh)	1,680,451
Market Cap	\$19.5 B
YTD Price Change	-17.2%
Beta	1.38
Dividend / Div Yld	\$4.08 / 2.4%
Industry	<a href="#">Industrial Automation and Robotics</a>
Zacks Industry Rank	Top 38% (96 out of 253)

### Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.0%
Last Sales Surprise	3.6%
EPS F1 Est- 4 week change	-11.3%
Expected Report Date	04/23/2020
Earnings ESP	-6.1%
P/E TTM	19.6
P/E F1	21.2
PEG F1	2.7
P/S TTM	2.9

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,735 E	1,757 E	1,819 E	1,882 E	6,844 E
2020	1,685 A	1,666 E	1,650 E	1,695 E	6,696 E
2019	1,642 A	1,657 A	1,665 A	1,730 A	6,695 A

### EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.91 E	\$2.14 E	\$2.55 E	\$2.06 E	\$8.43 E
2020	\$2.11 A	\$1.92 E	\$2.11 E	\$1.96 E	\$7.91 E
2019	\$2.21 A	\$2.04 A	\$2.40 A	\$2.01 A	\$8.67 A

\*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 04/08/2020. The reports text is as of 04/09/2020.

## Overview

Based in Milwaukee, WI, Rockwell Automation provides industrial automation and information solutions worldwide. The company has a wide network spanning more than 80 countries. Outside the United States (which generated around 54% of total sales in fiscal 2019), the company's main markets are China, Canada, Mexico, Italy, the United Kingdom, Germany, and Brazil. Its brands include Rockwell Automation, Allen-Bradley and Rockwell Software.

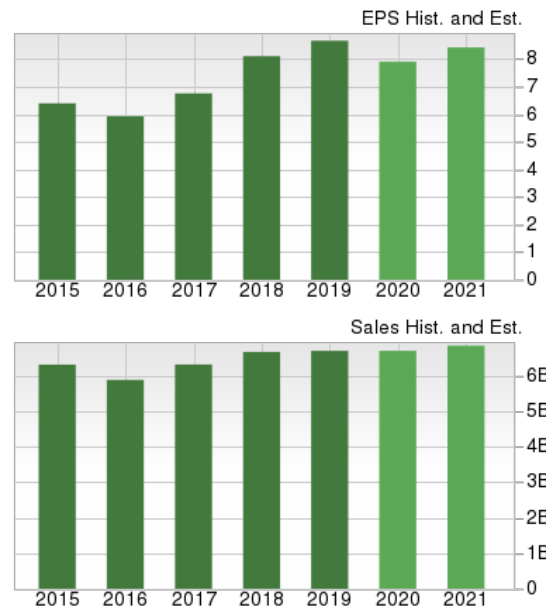
The company has two operating segments: Control Products & Solutions and Architecture & Software.

Major markets served by both segments consist of **discrete end markets** (e.g., Automotive, Semiconductor, and General Industries), which contributed around 25% of the company's fiscal 2018 sales.

**Hybrid end markets** including Food & Beverage, Life Sciences and Household and Personal Care, among others contributed around 40% to the company's sales in fiscal 2019, while **process end markets** such as Oil & Gas, Metals, Chemicals, Pulp & Paper, to name a few generated 35% of the company's sales in fiscal 2019.

**Control Products & Solutions**, (55% of revenues in fiscal 2019), provides a comprehensive portfolio of intelligent motor control, industrial control products, application expertise and project management capabilities. The product portfolio includes low and medium voltage electro-mechanical and electronic motor starters, motor and circuit protection devices, AC/DC variable frequency drives, push buttons, signaling devices, termination and protection devices, relays and timers. It also provides value-added solutions ranging from packaged solutions such as configured drives and motor control centers to automation and information solutions.

**The Architecture & Software division** (55% of revenues in fiscal 2019,) contains all elements of the company's integrated control and information architecture capable of connecting the customer's entire manufacturing enterprise. Architecture & Software's Integrated Architecture and Logix controllers perform multiple types of control and monitoring applications.



---

## Reasons To Buy:

- ▲ Rockwell Automation has announced temporary cost containment measures in the wake of weak demand and uncertain market conditions on account of the COVID-19 pandemic. Management assured that the company has performed well on the sales front in the fiscal second quarter (ended Mar 31, 2020) despite weak performance in China. Rockwell Automation is taking preemptive actions to align the company's cost structure with this uncertain environment. The company is trying to minimize workforce reductions. There will be no incentive compensation payouts for fiscal 2020. It is cutting down discretionary spending across the organization, and is introducing other temporary cost actions that will be effective across its locations by the beginning of May. Rockwell Automation also announced a 25% salary reduction for chairman and CEO, 15% salary reductions for all Senior Vice Presidents, and 7.5% salary reductions for all other non-manufacturing employees globally. The board of directors has also lowered its cash fees by 50%.

Rockwell Automation will benefit from expanding portfolio of products, solutions and services, growth investments and acquisitions. Focus on productivity will drive margins.
  - ▲ The company anticipates fiscal 2020 earnings per share in the band of \$8.70-\$9.10. The mid-point of the guidance range indicates year-over-year growth of 3%. Reported sales growth is expected in the range of 2-5%. Sales for fiscal 2020 are expected at around \$7 billion. Rockwell Automation expects segment operating margin at 21.5% in fiscal 2020. The Hybrid industries are expected to be up in low-single-digits driven by growth in Life Sciences, Food & beverage, and Tire markets.
  - ▲ The company will benefit from its focus on broadening the portfolio of hardware and software products, solutions and services. Further, significant investments to globalize manufacturing, product development and customer-facing resources will drive growth. The company is likely to witness above-market growth through a combination of share gains in core platforms, double-digit growth in Information Solutions and Connected Services, as well as contribution from acquisitions and inorganic investments. Moreover, focus on productivity and initiatives to mitigate the impact of tariffs are expected to drive growth.
  - ▲ Growth in emerging markets will continue to create demand for semiconductor and other heavy industries. For Rockwell Automation, Original Equipment Manufacturers (OEMs) represent another area of addressed market expansion and an important growth opportunity. To remain competitive, OEMs need to find the optimal balance of machine cost and performance while reducing their time to market. Rockwell Automation's scalable integrated architecture and intelligent motor control offerings, along with design productivity tools and motion and safety products, can assist OEMs in addressing these business needs. The company has also developed a powerful network of channel partners, technology partners and commercial partners that act as amplifiers to internal capabilities.
  - ▲ The company's strong financial position enables it to invest in organic growth as well return excess cash to share owners as dividends and share repurchases. During first-quarter fiscal 2020, Rockwell Automation repurchased about 0.5 million shares for \$100 million. The company has full-year target of about \$400 million. As of fiscal first-quarter 2020-end, the company had \$1.1 billion remaining available for repurchase. Rockwell Automation's board of directors announced a hike of 5% in quarterly dividend in October 2019. Over the last five fiscal years, the company has returned approximately \$6 billion of cash to shareowners through dividends and share repurchases.
  - ▲ In first quarter fiscal 2020, Rockwell Automation acquired MESTECH Services, a global provider of Manufacturing Execution Systems/Manufacturing Operations Management, digital solutions consulting, and systems integration services. The acquisition enhances the company's capabilities to profitably grow Information Solutions and Connected Services globally and accelerate its ability to help customers execute digital transformation initiatives. Rockwell Automation will be able to leverage MESTECH's presence in India, which is one of its growing markets. The company has also entered into an agreement to acquire Israeli-based cybersecurity company, Avnet Data Security, LTD, in a bid to boost its cybersecurity offerings, which is one of Rockwell Automation's fastest-growing businesses. This buyout will support the company's strategic objective to achieve double-digit growth in Information Solutions and Connected Services by expanding its IT/OT cyber and network expertise globally. The company's acquisition pipeline remains robust.
  - ▲ Rockwell Automation has entered into a joint venture (JV) agreement with Schlumberger to form Sensia — the first fully integrated digital oilfield automation solutions provider. Sensia will operate as an independent entity, with Rockwell Automation owning 53% and Schlumberger owning the balance. Sensia is expected to generate initial annual revenues of approximately \$400 million.
-

---

## Reasons To Sell:

- ▼ Rockwell Automation expects discrete end markets to be down low-single digits in fiscal 2020 as the automotive sector is expected to remain flat while semiconductor markets anticipated to be down in mid-single digits. Process industries are expected to remain flat in fiscal 2020 compared with the prior fiscal. Chemical markets are expected to be down low single-digits, which will negate growth in Oil & Gas and Mining/Aggregate/Cement (MAC). Input cost inflation due to the implementation of tariffs will limit Rockwell Automation's margins.
- ▼ In fiscal 2020, net interest expense, operating pension expense and currency are expected to remain headwinds. Net interest expense is expected to be higher as a result of the capital deployment activities in fiscal 2019 and those planned for fiscal 2020. The lower interest rate environment is leading to higher operating pension expense and a stronger U.S. dollar will impact results. The company anticipates adjusted earnings per share in the second quarter to come in lower than the first quarter. Rockwell Automation continues to project a weaker first half of the year, with organic sales down low single digits, followed by a stronger second half of the year.
- ▼ Sales in the domestic markets accounts for roughly 54% of Rockwell Automation's total sales. The U.S Purchasing Managers' Index (PMI) released by the Institute for Supply Management had been below 50 (indicating contraction) for five consecutive months till December 2019. Even though the index had climbed to 50.9 in January and 50.1 in February, it dipped to 49.1% again in March. The manufacturing sector has clearly been impacted by the coronavirus pandemic and energy market volatility.
- ▼ Rockwell Automation faces stiff competition in all of its market segments. The company, therefore, needs to continually develop advanced technologies for new products and product enhancements. Developing products requires high levels of innovation, and the process is often lengthy and expensive. The company's increased spending to support growth will continue to put pressure on margins in the near term.

Rockwell Automation's performance will be affected by the slowdown in U.S manufacturing activity, weakness in automotive, semiconductor and chemical markets. It will bear the brunt of tariffs.

## Last Earnings Report

### Rockwell Automation Earnings Meet Estimates in Q1

Rockwell Automation reported adjusted earnings of \$2.11 in first-quarter fiscal 2020 (ended Dec 31, 2019), which met the Zacks Consensus Estimate. However, the bottom line declined 5% from the prior-year quarter figure of \$2.21. Lower organic sales, higher investment spending, and unfavorable mix, partially offset by a lower share count and lower tax rate, led to the overall decline in earnings.

Including one-time items, the company's earnings came in at \$2.66 per share compared with 66 cents reported in the year-ago quarter.

Total revenues came in at \$1,684.5 million, up 2.6% compared with the prior-year quarter. Moreover, the top line figure outpaced the Zacks Consensus Estimate of \$1,625 million. Organic sales in the quarter were down 1%, while foreign-currency translations had a negative impact of 0.9%. However, acquisitions contributed 4.5% to sales.

### Operational Update

Cost of sales rose 9% year over year to \$982 million. Gross profit decreased 5% to \$703 million from the year-ago quarter's \$739 million. Selling, general and administrative expenses rose 4% year over year to \$403 million.

Consolidated segment operating income totaled \$339 million, down 10% from the prior-year quarter's figure of \$375 million. Segment operating margin was 20.1% in the fiscal first quarter compared with the prior-year quarter's 22.8%.

### Segment Results

Architecture & Software: Net sales declined to \$752 million in the fiscal first quarter from the \$753 million in the prior-year quarter. While organic sales were up 0.7%, currency translation had a negative impact of 1%. However, acquisitions contributed 0.1%. Segment operating earnings came in at \$224 million compared with the \$237 million reported in the prior-year quarter. Segment operating margin contracted 29.8% in the quarter compared with 31.5% in the comparable period last year, thanks to higher investment spending.

Control Products & Solutions: Net sales increased 5% year over year to \$933 million in the reported quarter. Organic sales declined 2.5%, while currency translation reduced sales by 0.8%. Inorganic investments increased sales by 8.2%. Segment operating earnings plunged around 17% to \$1115 million from the year-ago quarter. Segment operating margin was 12.4% compared with the prior-year quarter's 15.5% on account of Sensia one-time items, unfavorable mix, and lower organic sales.

### Financials

As of Dec 31, 2019, cash and cash equivalents totaled \$926 million, down from \$1,018 million as of Sep 30, 2019. As of Dec 31, 2019, total debt was \$2,278 million, up from \$2,257 million as of Sep 30, 2019.

Cash flow from operations in first-quarter fiscal 2020 was \$231 million compared with the \$212 million generated in the prior-year quarter. Return on invested capital was 33% as of Dec 31, 2019, compared with 39% as of Dec 31, 2018.

During first-quarter fiscal 2020, Rockwell Automation repurchased 0.5 million shares for \$100 million. As of the quarter end, \$1 billion was available under the existing share-repurchase authorization.

### Fiscal 2020 Guidance

The company anticipates fiscal 2020 adjusted earnings per share in the band of \$8.70-\$9.10. The mid-point of the guided range suggests year-over-year growth of 3%. Organic sales growth is expected in the range of negative 1.5% to positive 1.5%. Inorganic sales growth is expected at around 4% for the year while currency translation impact is expected to be a negative 0.5%.

Quarter Ending 12/2019

Report Date	Jan 29, 2020
Sales Surprise	3.63%
EPS Surprise	0.00%
Quarterly EPS	2.11
Annual EPS (TTM)	8.56

## Recent News

### Rockwell Automation to Cut Costs to Fight Coronavirus Woes - Apr 8, 2020

Rockwell Automation has announced temporary cost containment measures in the wake of weak demand and uncertain market conditions on account of the COVID-19 pandemic.

Management assured that the company has performed well on the sales front in the fiscal second quarter (ended Mar 31, 2020) despite weak performance in China. However, as the virus has now taken the shape of a pandemic, the company anticipates lower demand in many of its served industries for a period of time.

Rockwell Automation is thus taking preemptive actions to align the company's cost structure with this uncertain environment. The company is trying to minimize workforce reductions. There will be no incentive compensation payouts for fiscal 2020. It is cutting down discretionary spending across the organization, and is introducing other temporary cost actions that will be effective across its locations by the beginning of May.

Rockwell Automation also announced a 25% salary reduction for chairman and CEO, 15% salary reductions for all Senior Vice Presidents, and 7.5% salary reductions for all other non-manufacturing employees globally. The board of directors has also lowered its cash fees by 50%. Manufacturing associates will not be impacted by the temporary pay reductions. They will receive a one-time additional payment in acknowledgement of their work in serving customers during this difficult time. The company match for 401(k) retirement savings plan has been suspended. Rockwell Automation assured that as soon as the markets recover, it will reverse these actions.

Meanwhile, Rockwell Automation continues to take efforts to maintain the well-being of its employees. The company is ensuring that its customers in the life sciences, food and beverage, and personal care industries are able to deliver the products that are critical to so many people and companies worldwide. The company also remains focused on making strategic investments in technology and domain expertise that will be instrumental in driving long-term growth for the company.

## Valuation

Rockwell Automation's shares declined 8.3% over the trailing 12-month period. Stocks in the Industrial Automation and Robotics industry and the Zacks Industrial Products sector are down 17.0% and 19.7% respectively, over the past year.

The S&P 500 index has declined 5.0% in the past year.

The stock is currently trading at 18.28X forward 12-month earnings, which compares with 19.12X for the Zacks sub-industry, 16.24X for the Zacks sector and 17.70X for the S&P 500 index.

Over the past five years, the stock has traded as high as 27.23X and as low as 14.05X, with a 5-year median of 19.54X.

Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$178 price target reflects 19.39X forward 12-month earnings per share.

The table below shows summary valuation data for ROK:

Valuation Multiples - ROK					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	18.28	19.12	16.24	17.7
	5-Year High	27.23	25.64	19.93	19.34
	5-Year Low	14.05	14.13	12.55	15.19
	5-Year Median	19.54	18.96	16.47	17.45
EV/EBITDA TTM	Current	14.46	11.25	13.69	10.09
	5-Year High	18.52	14.75	17.37	12.87
	5-Year Low	8.23	6.55	10.71	8.27
	5-Year Median	11.98	9.73	14.75	10.78
P/B TTM	Current	18.81	9.56	4.28	3.66
	5-Year High	59.48	19.24	5.62	4.55
	5-Year Low	5.26	3.93	3.31	2.84
	5-Year Median	9.67	7.06	4.45	3.63

As of 04/08/2020

## Industry Analysis Zacks Industry Rank: Top 38% (96 out of 253)



## Top Peers

ABB Ltd (ABB)	Neutral
Dover Corporation (DOV)	Neutral
Emerson Electric Co. (EMR)	Neutral
Eaton Corporation, PLC (ETN)	Neutral
Flowserve Corporation (FLS)	Neutral
Honeywell International Inc. (HON)	Neutral
Micron Technology, Inc. (MU)	Neutral
Timken Company (The) (TKR)	Neutral

Industry Comparison Industry: Industrial Automation And Robotics				Industry Peers		
	ROK Neutral	X Industry	S&P 500	ABB Neutral	EMR Neutral	MU Neutral
<b>VGM Score</b>	<b>D</b>	-	-	<b>C</b>	<b>D</b>	<b>C</b>
Market Cap	19.50 B	1.31 B	19.05 B	38.66 B	31.88 B	53.71 B
# of Analysts	11	3	13	3	10	9
Dividend Yield	2.43%	0.56%	2.23%	2.71%	3.84%	0.00%
<b>Value Score</b>	<b>D</b>	-	-	<b>B</b>	<b>C</b>	<b>B</b>
Cash/Price	0.05	0.22	0.06	0.12	0.06	0.16
EV/EBITDA	18.05	6.79	11.47	13.60	8.89	4.11
PEG Ratio	2.75	3.45	2.00	3.06	2.80	2.23
Price/Book (P/B)	18.81	2.04	2.56	2.73	3.75	1.45
Price/Cash Flow (P/CF)	16.53	12.93	10.14	10.57	10.29	4.25
P/E (F1)	21.34	25.36	16.97	18.97	16.95	22.87
Price/Sales (P/S)	2.89	1.43	2.01	1.38	1.73	2.74
Earnings Yield	4.71%	4.05%	5.81%	5.27%	5.89%	4.37%
Debt/Equity	2.13	0.07	0.70	0.48	0.47	0.15
Cash Flow (\$/share)	10.15	2.79	7.01	1.69	5.07	11.36
<b>Growth Score</b>	<b>B</b>	-	-	<b>C</b>	<b>D</b>	<b>D</b>
Hist. EPS Growth (3-5 yrs)	8.63%	8.71%	10.92%	3.57%	0.92%	69.73%
Proj. EPS Growth (F1/F0)	-8.78%	0.76%	-0.64%	-24.19%	-16.72%	-66.75%
Curr. Cash Flow Growth	-0.65%	-11.13%	5.93%	-3.96%	7.06%	-35.35%
Hist. Cash Flow Growth (3-5 yrs)	3.18%	3.50%	8.55%	-2.99%	-0.68%	15.84%
Current Ratio	1.45	2.23	1.24	1.31	1.13	2.74
Debt/Capital	68.08%	7.03%	42.36%	32.63%	32.20%	13.61%
Net Margin	13.75%	13.75%	11.64%	5.14%	11.79%	11.72%
Return on Equity	102.93%	13.60%	16.74%	18.71%	25.55%	7.16%
Sales/Assets	1.05	0.92	0.54	0.62	0.88	0.40
Proj. Sales Growth (F1/F0)	0.02%	5.98%	0.61%	-0.74%	-5.30%	-14.73%
<b>Momentum Score</b>	<b>F</b>	-	-	<b>C</b>	<b>F</b>	<b>F</b>
Daily Price Chg	4.82%	0.00%	4.33%	0.56%	3.60%	3.76%
1 Week Price Chg	-3.09%	0.00%	-4.40%	-9.60%	0.31%	-5.20%
4 Week Price Chg	5.47%	5.47%	-1.70%	-5.31%	-0.08%	10.45%
12 Week Price Chg	-17.03%	-21.29%	-20.64%	-25.24%	-32.04%	-14.03%
52 Week Price Chg	-8.24%	-27.04%	-12.97%	-8.28%	-26.75%	14.51%
20 Day Average Volume	1,680,451	6,988	4,016,075	3,497,618	6,668,841	38,390,284
(F1) EPS Est 1 week change	0.00%	0.00%	-0.26%	0.00%	-2.75%	0.00%
(F1) EPS Est 4 week change	-11.33%	-6.70%	-5.64%	-7.24%	-17.76%	-11.71%
(F1) EPS Est 12 week change	-11.41%	-7.29%	-7.49%	-9.18%	-16.66%	-10.28%
(Q1) EPS Est Mthly Chg	-12.54%	-12.54%	-9.90%	NA	-19.03%	-2.34%

## Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	D
Growth Score	B
Momentum Score	F
VGM Score	D

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

## Disclosures

**This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock. The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page.** Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment. This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time. ZIR is not a broker-dealer. ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients. Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

No part of this report can be reprinted, republished or transmitted electronically without the prior written authorization of ZIR.