

Rockwell Automation (ROK)

\$232.18 (As of 08/11/20)

Price Target (6-12 Months): **\$245.00**

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:C

Value: D

Growth: C

Momentum: A

Summary

Rockwell Automation's third-quarter fiscal 2020 adjusted earnings per share and revenues declined year over year but beat the Zacks Consensus Estimate. The company anticipates fiscal 2020 adjusted earnings per share between \$7.40 and \$7.60, indicating a year-over-year decline of 13% at the mid-point. Organic sales is expected to decline 8% in fiscal 2020. Weakness in the automotive, oil and gas and chemical markets, and impact of the coronavirus outbreak are likely to weigh on fiscal 2020 results. However, the company plans to cut costs to mitigate the impact, which is likely to generate \$150 million in savings in fiscal 2020. Growth in Information Solutions and Connected Services segment, contribution from acquisitions and inorganic investments will be conducive to its performance in the days ahead.

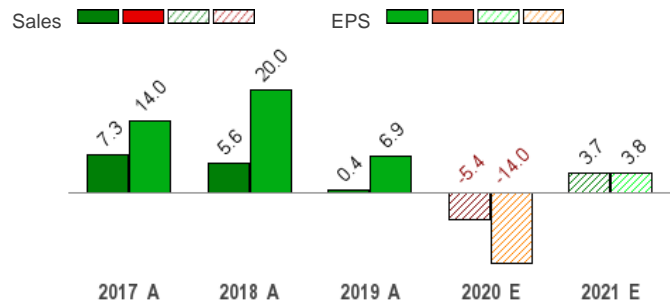
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$238.49 - \$115.38
20 Day Average Volume (sh)	677,130
Market Cap	\$26.9 B
YTD Price Change	14.6%
Beta	1.48
Dividend / Div Yld	\$4.08 / 1.8%
Industry	Industrial Automation and Robotics
Zacks Industry Rank	Top 49% (124 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	12.4%
Last Sales Surprise	0.3%
EPS F1 Est- 4 week change	3.8%
Expected Report Date	11/10/2020
Earnings ESP	0.0%
P/E TTM	29.7
P/E F1	31.1
PEG F1	4.0
P/S TTM	4.2

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,596 E	1,668 E	1,678 E	1,801 E	6,565 E
2020	1,685 A	1,681 A	1,394 A	1,547 E	6,333 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	\$1.67 E	\$2.18 E	\$1.93 E	\$2.41 E	\$7.74 E
2020	\$2.11 A	\$2.43 A	\$1.27 A	\$1.70 E	\$7.46 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 08/11/2020. The reports text is as of 08/12/2020.

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.

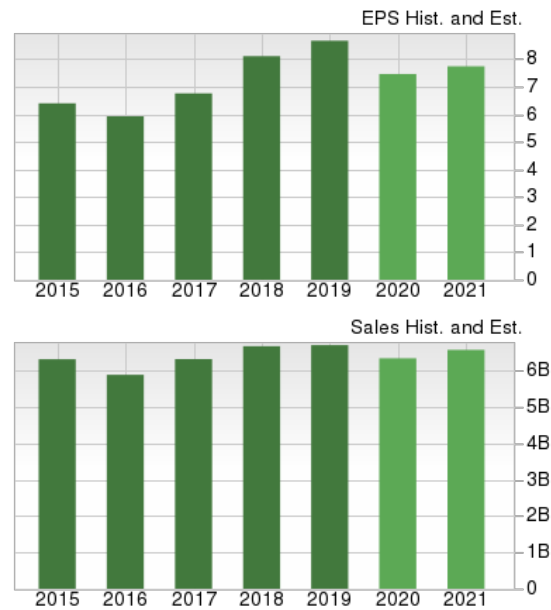
The company has two operating segments: Control Products & Solutions and Architecture & Software.

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 2019 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.

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.

Beginning in fiscal year 2021, Rockwell Automation will report results based on three operating segments: Intelligent Devices, Software & Control, and Lifecycle Services. This change simplifies its structure and aligns with customer needs.



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. 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 to cut salaries. These actions are expected to generate \$150 million of savings in fiscal 2020.
- ▲ The company falls under essential business to support critical infrastructure. Its global manufacturing facilities and distribution centers are operational. The company has implemented several measures to ensure the health and safety of its employees, while supporting few pharmaceutical and medical device companies to scale up their production of critical products and testing capacity during the current crisis. Moreover, demand for packaged food and beverages are spiking on travel restrictions imposed by governments around the world. Rockwell Automation's Food & Beverage business is roughly 70% retail for grocery stores and home delivery and 30% foodservice for restaurants. Further, the company is implementing freight surcharges to mitigate elevated supply-chain costs.
- ▲ 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 segment, 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 continues to see strong growth in core platforms like Independent Cart technology for motion control and Network Infrastructure.
- ▲ Rockwell Automation maintains a strong financial position with regard to capital structure, cost-containment actions and liquidity, while also being well positioned to sail through the current turbulent situation. The company had cash of \$910 million as of Jun 30, 2020. Total debt was at \$2.4 billion as of the quarter end. The company's total debt-to-total capital ratio has been declining persistently over the past few quarters and was at 0.67 as of end of third-quarter fiscal 2020, a tad higher than the industry's 0.64. Although the company's debt is on the higher side, the major portion of the debt is payable after 2025. The company has a \$1.25-billion existing credit facility to support its liquidity position. Current ratio currently stands at 1.35 and its times interest earned is at 9.6. This indicates that the company is in a good position to fulfill its short term debt obligations.
- ▲ 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. The company has also acquired 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. In April, the company completed acquisitions of ASEM, a leading provider of digital automation technologies and Kalypso, a privately-held US-based software delivery and consulting firm specializing in the digital transformation of industrial companies with a strong client base in life sciences, consumer products and industrial high-tech.

Rockwell Automation will benefit from expanding portfolio of products, solutions and services, growth investments and acquisitions. Focus on productivity will drive margins.

Reasons To Sell:

- ▼ The company had been witnessing increase in order levels lately. The company has raised fiscal 2020 adjusted earnings per share guidance to the band of \$7.40-\$7.60 from its prior estimate of \$6.90-\$7.70. The mid-point of the new guidance indicates a year-over-year decline of 13%. Organic sales growth is expected to be a negative 8%. Reported sales growth is expected to be a negative 5.5%. Inorganic sales growth is projected at 4% for the fiscal year, while currency translation impact is expected to be a negative 1.5%. The company's guidance is based on the premise of a gradual recovery, with no increase in pandemic-related facility closures or disruptions to the supply chain. Resurgence in cases might impact the company's operations or hamper its supply chain.
- ▼ Rockwell Automation expects discrete end markets to be down mid-single digits in fiscal 2020 as the Automotive sector is expected to witness decline in the mid-single digits. The Hybrid industry is likely to be down in mid-single digits mainly dragged down by Tire, followed by Food & Beverage and Life Sciences. The Process industry will be down in the mid-teens as oil and gas market, Mining/Aggregate/Cement (MAC) and Chemical are all expected to go down in the double digits. Input cost inflation due to the implementation of tariffs as well as supply chain disruptions on coronavirus pandemic will limit Rockwell Automation's margins. Further, net interest expense, general corporate costs and currency are anticipated to remain headwinds in fiscal 2020.
- ▼ Sales in the domestic markets accounts for roughly 54% of Rockwell Automation's total sales. The U.S.-China trade war and waning global demand had already taken a toll on the U.S manufacturing sector, and the coronavirus pandemic has only aggravated the scenario. Per the Institute for Supply Management's report, the U.S Purchasing Managers' Index (PMI) came in at 41.5% for April — the lowest since April 2009 when it registered 39.9%. In May, the PMI came in at 43.1%. A reading below 50 denotes contraction. Even though the index climbed to 52.6% in June, the manufacturing index averaged 45.7% for the second quarter. The July PMI reading came in at 54.2%. It remains to be seen whether the recovery in the past two months will sustain considering the surge in coronavirus cases.
- ▼ 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 oil and gas, automotive, and chemical markets. It will bear the brunt of tariffs.

Last Earnings Report

Rockwell's Q3 Earnings & Sales Top Estimates, View Up

Rockwell Automation reported adjusted earnings of \$1.27 in third-quarter fiscal 2020 (ended Jun 30, 2020), beating the Zacks Consensus Estimate of 1.13. The bottom line, however, plummeted 47% year over year, primarily on lower sales.

Including one-time items, the company's earnings came in at \$2.73 per share compared with the \$2.20 reported in the year-ago quarter.

Total revenues came in at \$1,394 million, down 16.3% from the prior-year quarter. Moreover, the top-line figure outpaced the Zacks Consensus Estimate of \$1,390 million. Organic sales in the quarter were down 17.6%, while foreign-currency translations had a negative impact of 1.9%. However, acquisitions contributed 3.2% to the increase in sales.

Quarter Ending 06/2020

Report Date	Jul 28, 2020
Sales Surprise	0.30%
EPS Surprise	12.39%
Quarterly EPS	1.27
Annual EPS (TTM)	7.82

Operational Update

Cost of sales decreased 10.2% year over year to \$839.8 million. Gross profit declined 24% year over year to \$554.2 million. Selling, general and administrative expenses flared up 2.2% year over year to \$370 million.

Consolidated segment operating income totaled \$229 million, down 42.1% from the prior-year quarter. Segment operating margin was 16.5% in the fiscal third quarter compared with the prior-year quarter's 23.8%.

Segment Results

Architecture & Software: Net sales came in at \$621.4 million in the fiscal third quarter, registering a year-over-year decline of 16.9%. Organic sales were down 15.9%, and currency translation had a negative impact of 1.8%. However, acquisitions contributed 0.8%. Segment operating earnings came in at \$148 million compared with the \$223 million reported in the prior-year quarter. Segment operating margin contracted 23.8% in the quarter compared with the year-ago quarter's 29.8%.

Control Products & Solutions: Net sales declined 15.8% year over year to \$773 million in the reported quarter. Organic sales slid 18.9%, while inorganic investments boosted sales by 5.1%. Currency translation, however, reduced sales by 2%. Segment operating earnings slumped 52.6% year over year to \$82 million. Segment operating margin was 10.6% compared with the year-earlier quarter's 18.9%.

Financials

As of Jun 30, 2020, cash and cash equivalents totaled \$909.8 million, down from \$1,018.4 million as of Sep 30, 2019. As of Jun 30, 2020, total debt was \$2.4 billion, up from \$2.3 billion as of Sep 30, 2019.

Cash flow from operations for the nine-month period ended Jun 30, 2020 was \$795 million compared with the \$707 million generated in the prior-year comparable period. Return on invested capital was 27.9% as of Jun 30, 2020, compared with the 39% witnessed in the prior-year period.

During the fiscal third quarter, Rockwell repurchased 0.3 million shares for \$48.5 million. As of the quarter end, \$853.7 million was available under the existing share-repurchase authorization.

Fiscal 2020 Guidance

The company anticipates fiscal 2020 adjusted earnings per share in the band of \$7.40-\$7.60, up from prior estimate of \$6.90-\$7.70. Organic sales growth is expected to be a negative 8%. Reported sales growth is expected to be a negative 5.5%. Inorganic sales growth is projected at 4% for the fiscal year, while currency translation impact is expected to be a negative 1.5%.

Valuation

Rockwell Automation's shares have gone up 14.5% in the year-to-date period and up 51.7% over the trailing 12-month period. Stocks in the Zacks Industrial Automation and Robotics industry are up 14.6% while the Zacks Industrial Products sector are down 0.9% in the year-to-date period. Over the past year, the Zacks sub-industry and sector are up 43.9% and 13.4%, respectively.

The S&P 500 index is up 3.3% in the year-to-date period and up 14.0% in the past year.

The stock is currently trading at 30.12X forward 12-month earnings, which compares with 27.53X for the Zacks sub-industry, 22.36X for the Zacks sector and 22.80X for the S&P 500 index.

Over the past five years, the stock has traded as high as 30.44X and as low as 13.48X, with a 5-year median of 19.96X.

Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$245 price target reflects 31.78X 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	30.12	27.53	22.36	22.8
	5-Year High	30.44	27.74	22.36	22.8
	5-Year Low	13.48	14.13	12.55	15.25
	5-Year Median	19.96	19.09	17.48	17.58
EV/EBITDA TTM	Current	21.53	16.32	19.49	12.62
	5-Year High	21.53	16.32	19.49	12.84
	5-Year Low	8.23	6.55	10.84	8.24
	5-Year Median	12.8	10.41	14.9	10.9
P/B TTM	Current	24.72	12.59	5.48	4.64
	5-Year High	59.48	19.24	5.94	4.68
	5-Year Low	5.26	3.93	3.34	2.83
	5-Year Median	10.8	7.55	4.51	3.74

As of 08/11/2020

Industry Analysis Zacks Industry Rank: Top 49% (124 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Flowserve Corporation (FLS)	Outperform	3
Micron Technology, Inc. (MU)	Outperform	2
Timken Company The (TKR)	Outperform	1
ABB Ltd (ABB)	Neutral	2
Dover Corporation (DOV)	Neutral	3
Emerson Electric Co. (EMR)	Neutral	3
Eaton Corporation, PLC (ETN)	Neutral	3
Honeywell International Inc. (HON)	Neutral	3

Industry Comparison Industry: Industrial Automation And Robotics				Industry Peers		
	ROK	X Industry	S&P 500	ABB	EMR	MU
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Outperform
Zacks Rank (Short Term)	3	-	-	2	3	2
VGM Score	C	-	-	D	B	B
Market Cap	26.93 B	1.81 B	23.61 B	56.31 B	42.00 B	53.06 B
# of Analysts	10	3	14	3	8	8
Dividend Yield	1.76%	0.23%	1.69%	1.99%	2.85%	0.00%
Value Score	D	-	-	C	B	A
Cash/Price	0.04	0.13	0.07	0.08	0.06	0.16
EV/EBITDA	24.53	5.66	13.32	19.14	11.69	4.06
PEG Ratio	4.05	3.10	2.95	5.24	2.78	1.69
Price/Book (P/B)	24.72	2.71	3.22	4.48	5.33	1.40
Price/Cash Flow (P/CF)	22.88	16.22	12.79	15.40	13.88	4.20
P/E (F1)	31.39	29.90	22.02	32.46	21.30	17.29
Price/Sales (P/S)	4.15	1.66	2.57	2.14	2.44	2.62
Earnings Yield	3.21%	3.35%	4.29%	3.08%	4.69%	5.78%
Debt/Equity	2.04	0.07	0.77	0.50	0.70	0.18
Cash Flow (\$/share)	10.15	3.29	6.94	1.69	5.07	11.36
Growth Score	C	-	-	D	B	D
Hist. EPS Growth (3-5 yrs)	9.65%	5.84%	10.41%	2.54%	4.48%	69.37%
Proj. EPS Growth (F1/F0)	-13.92%	-22.63%	-6.51%	-35.48%	-10.57%	-56.50%
Curr. Cash Flow Growth	-0.65%	1.05%	5.22%	-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	1.31	2.45	1.34	1.19	1.32	2.89
Debt/Capital	67.14%	7.08%	44.59%	33.15%	41.11%	15.61%
Net Margin	11.85%	11.85%	10.13%	5.83%	11.39%	11.16%
Return on Equity	105.45%	9.55%	14.59%	18.45%	26.12%	6.31%
Sales/Assets	0.95	0.88	0.51	0.57	0.81	0.40
Proj. Sales Growth (F1/F0)	-5.64%	0.00%	-1.45%	-10.91%	-9.16%	-8.97%
Momentum Score	A	-	-	C	B	C
Daily Price Chg	1.25%	0.00%	-0.17%	-0.35%	3.11%	-2.83%
1 Week Price Chg	2.52%	0.50%	2.30%	4.00%	7.03%	-2.61%
4 Week Price Chg	5.98%	0.00%	6.41%	4.59%	13.21%	-3.92%
12 Week Price Chg	14.58%	3.84%	15.42%	39.47%	26.19%	5.85%
52 Week Price Chg	51.71%	3.76%	2.88%	38.36%	18.75%	8.13%
20 Day Average Volume	677,130	2,229	2,007,486	1,747,146	2,703,563	17,903,296
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	-0.20%	0.00%
(F1) EPS Est 4 week change	3.79%	1.89%	1.84%	12.15%	7.92%	0.00%
(F1) EPS Est 12 week change	4.39%	1.54%	2.40%	25.98%	8.13%	30.86%
(Q1) EPS Est Mthly Chg	3.19%	76.04%	0.72%	NA	3.87%	0.00%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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	C
Momentum Score	A
VGM Score	C

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.

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