

## Rockwell Automation (ROK)

**\$205.26** (As of 01/16/20)

Price Target (6-12 Months): **\$218.00**

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:B

Value: D

Growth: B

Momentum: C

### Summary

Rockwell Automation expects fiscal 2020 earnings per share at \$8.70-\$9.10. The mid-point of the guidance indicates year-over-year growth of 3%. The recent slowdown in U.S manufacturing activity, weakness in the automotive, semiconductor and chemical markets remain concerns. Further, net interest expense, operating pension expense and currency are anticipated to remain headwinds in fiscal 2020. Nevertheless, results will be driven by growth in Hybrid industries such as Life Sciences, Food & beverage, and Tire markets. The company's estimates for the current fiscal have undergone positive revisions lately. Going forward, it 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, and acquisitions and inorganic investments.

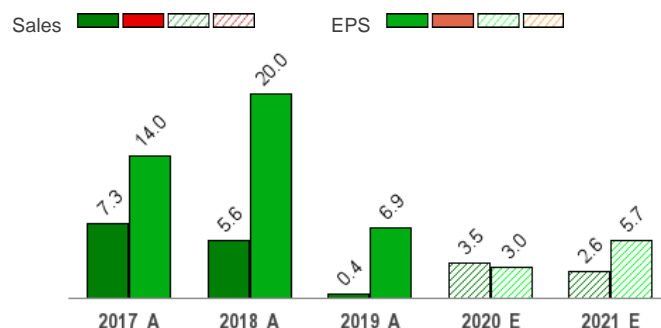
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	\$207.94 - \$143.91
20 Day Average Volume (sh)	581,924
Market Cap	\$23.7 B
YTD Price Change	1.3%
Beta	1.44
Dividend / Div Yld	\$4.08 / 2.0%
Industry	<a href="#">Industrial Automation and Robotics</a>
Zacks Industry Rank	Bottom 10% (229 out of 254)

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



Last EPS Surprise	4.7%
Last Sales Surprise	4.4%
EPS F1 Est- 4 week change	-0.2%
Expected Report Date	01/29/2020
Earnings ESP	-5.8%
P/E TTM	23.7
P/E F1	23.0
PEG F1	3.0
P/S TTM	3.5

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,715 E	1,757 E	1,793 E	1,884 E	7,109 E
2020	1,642 E	1,685 E	1,759 E	1,844 E	6,929 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	\$2.16 E	\$2.25 E	\$2.61 E	\$2.35 E	\$9.44 E
2020	\$2.14 E	\$2.06 E	\$2.36 E	\$2.33 E	\$8.93 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, except sales and EPS estimates, is as of 01/16/2020. The reports text and the analyst-provided sales and EPS estimates are as of 01/17/2020.

## 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.

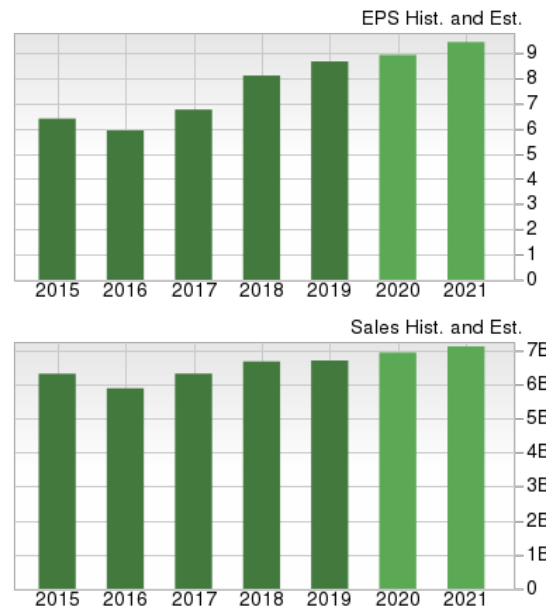
The company has two operating segments: Control Products & Solutions and Architecture & Software.

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.



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## Reasons To Buy:

- ▲ The company now anticipates fiscal 2020 earnings per share in the band of \$8.70-\$9.10. The mid-point of the guidance range indicates a 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 fiscal 2019, the company repurchased 6.1 million shares for \$1 billion, in-line with its target. As of the fiscal 2019-end, the company had \$1.1 billion remaining available for repurchase. Rockwell Automation's board of directors announced a hike of 5% in its quarterly dividend. Over the last five fiscal years, the company has returned approximately \$6 billion of cash to shareowners through dividends and share repurchases.
- ▲ In October, 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. In January 2019, the company acquired Emulate3D, an innovative engineering software developer whose products digitally simulate and emulate industrial automation systems. In 2018, the company acquired PTC, which is a leader in the Industrial Internet of Things and augmented reality. 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.

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

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## 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.
- ▼ Sales in the domestic markets accounts for roughly 54% of Rockwell Automation's total sales. The primary indicators utilized to gauge the direction and momentum of its served U.S. markets are the Industrial Production (IP) Index published by the Federal Reserve, which measures the real output of manufacturing, mining and electric and gas utilities, and the Manufacturing Purchasing Managers' Index (PMI) published by the Institute for Supply Management (ISM), which indicates the current and near-term state of manufacturing activity in the United States. Per the latest report, the U.S Purchasing Managers' Index (PMI) was 48.1% in November 2019 – the fourth month of contraction in the sector. Moreover, industrial production declined 0.8% in October following a 0.3% fall in September and a 0.7% rise in August. This remains concern for Rockwell Automation.
- ▼ 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 Q4 Earnings & Sales Beat Estimates

Quarter Ending **09/2019**

Rockwell Automation delivered adjusted earnings of \$2.01 in fourth-quarter fiscal 2019 (ended Sep 30, 2019), surpassing the Zacks Consensus Estimate of \$1.92. Earnings, however, declined 4% from the prior-year quarter figure of \$2.10.

Including one-time items, the company recorded earnings of 7 cents per share compared with the \$2.80 reported in the year-ago quarter. This downside primarily resulted from the PTC adjustments.

Report Date	Nov 12, 2019
Sales Surprise	4.44%
EPS Surprise	4.69%
Quarterly EPS	2.01
Annual EPS (TTM)	8.66

Total revenues came in at \$1,730.2 million compared with the prior-year quarter's \$1,729.5 million. Also, the top-line figure outpaced the Zacks Consensus Estimate of \$1,657 million. Growth in organic and acquisition sales in the quarter was 1.4% and 0.1%, respectively, while foreign-currency translations had a negative impact of 1.5%. Continued strength in oil and gas, mining, and life sciences, as well as better performance in automotive and food and beverage drove organic sales growth in the reported quarter.

### Operational Update

Cost of sales rose 1.4% year over year to \$1,007.3 million. Gross profit decreased 1.8% to \$723 million from the year-ago quarter's \$736 million. Selling, general and administrative expenses declined 2.4% year over year to \$405.1 million.

Consolidated segment operating income totaled \$349 million, down 2.8% from the prior-year quarter's figure of \$358.9 million. Segment operating margin was 20.2% in the fiscal fourth quarter compared with the year-earlier quarter's 20.8%.

### Segment Results

**Architecture & Software:** Net sales increased to \$781.2 million in the fiscal fourth quarter from the \$774.4 million recorded in the prior-year quarter. While organic sales increased 2.3%, currency translation had a negative impact of 1.5%. However, acquisition contributed 0.1%. Segment operating earnings came in at \$205 million compared with the \$217.9 million reported in the prior-year quarter. Segment operating margin contracted to 26.2% in the quarter compared with 28.1% recorded in the comparable period last year.

**Control Products & Solutions:** Net sales edged down 0.6% year over year to \$949 million in the reported quarter. Organic sales inched up 0.7%, while currency translation reduced sales by 1.3%. Segment operating earnings improved 2.1% to \$144 million from the \$141 million witnessed in the year-ago quarter. Segment operating margin expanded to 15.2% compared with the prior-year quarter's 14.8%.

### Financials

As of Sep 30, 2019, cash and cash equivalents totaled \$1,018 million, up from \$619 million as of Sep 30, 2018. As of Sep 30, 2019, total debt was \$2,257 million, up from \$1,776 million as of Sep 30, 2018.

Cash flow from operations in fiscal 2019 was \$1,182 million, lower than the \$1,300 million generated in fiscal 2018. Return on invested capital was 25% as of Sep 30, 2019, compared with 48% as of Sep 30, 2018.

During fiscal 2019, Rockwell Automation repurchased 6.1 million shares for \$1 billion. As of the fiscal 2019 end, \$1.1 billion was available under the existing share-repurchase authorization.

### Fiscal 2019 Performance

Rockwell Automation reported adjusted earnings per share of \$8.67 in fiscal 2019, up 7% from the \$8.10 per share recorded in the prior fiscal year. The reported figure also surpassed the Zacks Consensus Estimate of \$8.60. Including one-time items, the bottom line came in at \$5.83 per share compared with the \$4.21 recorded in fiscal 2018.

Revenues inched up 0.4% year over year to \$6.69 billion from \$6.67 billion generated in fiscal 2018. Also, the top-line figure beat the Zacks Consensus Estimate of \$6.62 billion.

### Fiscal 2020 Guidance

Despite geopolitical uncertainties, Rockwell Automation has been benefiting from its differentiated portfolio. The company now anticipates fiscal 2020 earnings per share in the band of \$8.70-\$9.10. Organic sales growth is expected in the range of negative 1.5% to positive 1.5%.

The company anticipates another year of double-digit growth in the Information Solutions and Connected Services segments. It is also poised to benefit from the Sensia and Schlumberger joint venture. This apart, Rockwell Automation is focused on cost savings and restructuring actions in order to reinvest in solid growth opportunities.

## Recent News

### Rockwell to Acquire Avnet, Expand in Cybersecurity Market - Jan 8, 2020

Rockwell Automation has entered into an agreement to acquire Israeli-based cybersecurity company, Avnet Data Security, LTD, in a bid to boost its cybersecurity offerings.

Avnet, a privately-held cybersecurity provider, offers various information technology and operational technology (IT/OT) cybersecurity services and solutions ranging from assessments, penetration testing, network and security solutions, and training to converged IT/OT managed services.

Cybersecurity is one of Rockwell's fastest-growing businesses. The company's complete set of services and solutions aid customers to develop, maintain, and optimize cybersecurity strategies.

Notably, the latest acquisition supports Rockwell's strategy to achieve double-digit growth in Information Solutions and Connected Services by accelerating its expertise in IT/OT cybersecurity services globally. Further, Avnet's service offerings will allow Rockwell to serve a broader range of customers globally, while also enhancing its cybersecurity portfolio. The acquisition also meets the manufacturing industry's increasing demand for cybersecurity services.

The transaction is likely to close in the current year, subject to customary closing conditions. The deal is not expected to impact Rockwell's financial results for this year.

## Valuation

Rockwell Automation's shares gained 24.6% over the trailing 12-month period. Stocks in the Industrial Automation and Robotics industry and the Zacks Industrial Products sector are up 12.4% and 14% respectively, over the past year.

The S&P 500 index has gained 22.3% in the past year.

The stock is currently trading at 22.61X forward 12-month earnings, which compares with 21.03X for the Zacks sub-industry, 18.17X for the Zacks sector and 18.97X for the S&P 500 index.

Over the past five years, the stock has traded as high as 27.23X and as low as 14.41X, with a 5-year median of 19.37X.

Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$218 price target reflects 24.01X 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	22.61	21.03	18.17	18.97
	5-Year High	27.23	25.64	19.9	19.34
	5-Year Low	14.41	14.13	12.59	15.17
	5-Year Median	19.37	18.87	16.54	17.44
EV/EBITDA TTM	Current	16.7	12.78	16.94	12.12
	5-Year High	18.29	14.56	17.43	12.86
	5-Year Low	8.41	6.62	10.89	8.48
	5-Year Median	11.64	9.48	14.71	10.67
P/B TTM	Current	58.68	18.8	5.67	4.5
	5-Year High	59.48	19.24	5.7	4.5
	5-Year Low	5.26	3.93	3.44	2.85
	5-Year Median	9.45	6.89	4.44	3.61

As of 01/16/2020

## Industry Analysis Zacks Industry Rank: Bottom 10% (229 out of 254)



## 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>B</b>	-	-	<b>C</b>	<b>A</b>	<b>D</b>
Market Cap	23.72 B	1.58 B	24.61 B	51.27 B	47.43 B	63.92 B
# of Analysts	11	5	13	1	10	7
Dividend Yield	1.99%	0.50%	1.74%	2.05%	2.57%	0.00%
<b>Value Score</b>	<b>D</b>	-	-	<b>C</b>	<b>B</b>	<b>B</b>
Cash/Price	0.04	0.07	0.04	0.06	0.03	0.12
EV/EBITDA	21.38	10.64	14.24	17.18	13.03	4.90
PEG Ratio	2.98	2.95	2.07	3.74	2.70	NA
Price/Book (P/B)	59.42	2.54	3.38	3.74	5.79	1.75
Price/Cash Flow (P/CF)	20.23	14.54	13.75	13.66	15.37	5.08
P/E (F1)	23.09	34.90	19.09	23.17	21.44	24.16
Price/Sales (P/S)	3.54	1.87	2.68	1.81	2.58	3.10
Earnings Yield	4.35%	3.24%	5.24%	4.30%	4.66%	4.14%
Debt/Equity	4.84	0.01	0.72	0.62	0.52	0.16
Cash Flow (\$/share)	10.15	2.79	6.94	1.76	5.07	11.36
<b>Growth Score</b>	<b>B</b>	-	-	<b>D</b>	<b>A</b>	<b>D</b>
Hist. EPS Growth (3-5 yrs)	7.99%	11.62%	10.56%	3.70%	-1.19%	68.56%
Proj. EPS Growth (F1/F0)	2.99%	-24.93%	7.57%	13.74%	-1.57%	-62.41%
Curr. Cash Flow Growth	-0.65%	3.16%	14.73%	7.17%	7.06%	-35.35%
Hist. Cash Flow Growth (3-5 yrs)	3.18%	7.45%	9.00%	-1.95%	-0.68%	15.84%
Current Ratio	1.54	2.98	1.24	1.36	1.19	2.56
Debt/Capital	82.88%	4.64%	42.99%	38.35%	34.08%	13.70%
Net Margin	10.39%	15.35%	11.14%	5.06%	12.55%	17.01%
Return on Equity	99.27%	15.43%	17.16%	19.16%	26.32%	11.36%
Sales/Assets	1.09	0.76	0.55	0.63	0.88	0.43
Proj. Sales Growth (F1/F0)	3.50%	6.19%	4.16%	-0.65%	0.66%	-13.28%
<b>Momentum Score</b>	<b>C</b>	-	-	<b>A</b>	<b>A</b>	<b>D</b>
Daily Price Chg	1.50%	0.00%	0.89%	0.55%	1.58%	2.69%
1 Week Price Chg	1.21%	0.02%	0.39%	-0.87%	0.68%	3.92%
4 Week Price Chg	1.19%	10.02%	2.65%	-0.42%	2.34%	5.78%
12 Week Price Chg	18.22%	17.40%	7.55%	15.34%	11.43%	22.46%
52 Week Price Chg	28.08%	12.85%	22.12%	25.22%	25.60%	70.25%
20 Day Average Volume	581,924	12,773	1,536,375	1,365,577	2,006,895	20,025,660
(F1) EPS Est 1 week change	0.01%	0.00%	0.00%	0.00%	0.08%	0.00%
(F1) EPS Est 4 week change	-0.17%	-3.74%	0.00%	0.98%	0.28%	-7.06%
(F1) EPS Est 12 week change	2.76%	-13.23%	-0.40%	1.14%	-3.76%	-9.78%
(Q1) EPS Est Mthly Chg	-0.48%	-0.48%	0.00%	NA	0.40%	-16.67%



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## 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.

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### 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	C
VGM Score	B

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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