

Rockwell Automation (ROK)

\$209.37 (As of 02/21/20)

Price Target (6-12 Months): **\$221.00**

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: D

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 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 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. The estimates for the current quarter and fiscal year have gone up recently. The company has a mixed record of earnings surprises in the last few quarters.

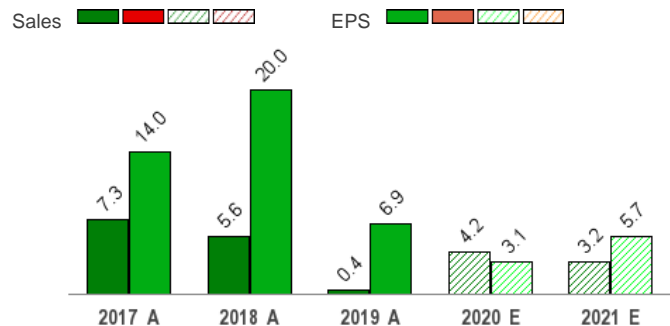
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$209.61 - \$143.91
20 Day Average Volume (sh)	735,298
Market Cap	\$24.3 B
YTD Price Change	3.3%
Beta	1.46
Dividend / Div Yld	\$4.08 / 1.9%
Industry	Industrial Automation and Robotics
Zacks Industry Rank	Bottom 7% (236 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.0%
Last Sales Surprise	3.6%
EPS F1 Est- 4 week change	0.2%
Expected Report Date	NA
Earnings ESP	0.0%
P/E TTM	24.5
P/E F1	23.4
PEG F1	3.0
P/S TTM	3.6

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,735 E	1,757 E	1,819 E	1,882 E	7,198 E
2020	1,685 A	1,710 E	1,760 E	1,833 E	6,978 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	\$2.08 E	\$2.24 E	\$2.70 E	\$2.30 E	\$9.45 E
2020	\$2.11 A	\$2.03 E	\$2.41 E	\$2.34 E	\$8.94 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 02/21/2020. The reports text is as of 02/24/2020.

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.

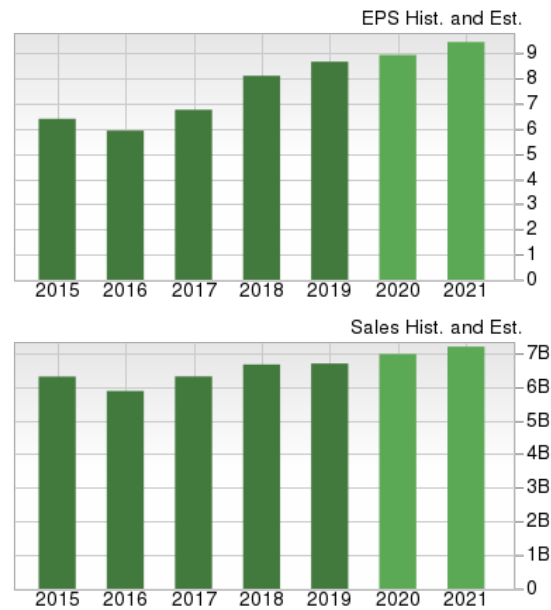
The company has two operating segments: Control Products & Solutions and Architecture & Software.

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:

- ▲ 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.

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:

- ▼ 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 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. For the fourth quarter, total industrial production declined at an annual rate of 0.5%. The PMI was 47.8% in December following readings of 48.1% and 48.3% in November and October, respectively. The PMI remained below 50 for five consecutive months till December. Even though the index has climbed to 50.9 in January, it remains to be seen whether this recovery will stay.
- ▼ 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 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 16% over the trailing 12-month period. Stocks in the Industrial Automation and Robotics industry and the Zacks Industrial Products sector are up 3.2% and 5.8% respectively, over the past year.

The S&P 500 index has gained 18.6% in the past year.

The stock is currently trading at 22.90X forward 12-month earnings, which compares with 21.57X for the Zacks sub-industry, 18.33X for the Zacks sector and 19.09X 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 19.49X.

Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$221 price target reflects 24.17X 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	22.9	21.57	18.33	19.09
	5-Year High	27.23	25.64	19.89	19.34
	5-Year Low	14.41	14.13	12.6	15.78
	5-Year Median	19.49	18.88	16.62	17.47
EV/EBITDA TTM	Current	17.77	12.79	17.09	12.31
	5-Year High	18.29	14.56	17.42	12.85
	5-Year Low	8.41	6.62	10.91	8.47
	5-Year Median	11.86	9.5	14.73	10.72
P/B TTM	Current	23.47	11.87	5.65	4.61
	5-Year High	59.48	19.24	5.73	4.68
	5-Year Low	5.26	3.93	3.44	2.85
	5-Year Median	9.55	6.98	4.45	3.62

As of 02/21/2020

Industry Analysis Zacks Industry Rank: Bottom 7% (236 out of 255)



Top Peers

Micron Technology, Inc. (MU)	Outperform
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
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 Outperform
VGM Score	D	-	-	C	C	D
Market Cap	24.33 B	1.48 B	24.03 B	51.29 B	44.11 B	63.16 B
# of Analysts	11	3	13	2	10	7
Dividend Yield	1.95%	0.57%	1.76%	2.05%	2.77%	0.00%
Value Score	D	-	-	B	C	C
Cash/Price	0.04	0.15	0.04	0.08	0.04	0.12
EV/EBITDA	22.24	7.97	14.08	18.00	12.06	4.84
PEG Ratio	2.91	3.93	2.08	3.83	2.41	NA
Price/Book (P/B)	23.47	2.27	3.29	3.67	5.21	1.73
Price/Cash Flow (P/CF)	20.63	12.61	13.42	14.23	14.23	5.01
P/E (F1)	22.52	35.26	19.00	23.75	19.66	23.45
Price/Sales (P/S)	3.61	1.53	2.64	1.83	2.40	3.06
Earnings Yield	4.27%	3.20%	5.26%	4.21%	5.09%	4.26%
Debt/Equity	2.13	0.04	0.70	0.54	0.47	0.16
Cash Flow (\$/share)	10.15	2.79	7.03	1.69	5.07	11.36
Growth Score	B	-	-	C	D	F
Hist. EPS Growth (3-5 yrs)	8.63%	8.79%	10.84%	3.57%	0.92%	68.56%
Proj. EPS Growth (F1/F0)	3.09%	-20.08%	7.09%	-18.55%	-0.62%	-61.73%
Curr. Cash Flow Growth	-0.65%	-11.13%	6.72%	-3.96%	7.06%	-35.35%
Hist. Cash Flow Growth (3-5 yrs)	3.18%	7.45%	8.25%	-2.99%	-0.68%	15.84%
Current Ratio	1.45	2.23	1.22	1.31	1.13	2.56
Debt/Capital	68.08%	6.29%	42.37%	34.88%	32.20%	13.70%
Net Margin	13.75%	13.75%	11.56%	5.14%	11.79%	17.01%
Return on Equity	102.93%	13.60%	16.80%	18.71%	25.55%	11.36%
Sales/Assets	1.05	0.92	0.55	0.62	0.88	0.43
Proj. Sales Growth (F1/F0)	4.23%	6.47%	3.90%	-1.98%	0.19%	-12.66%
Momentum Score	D	-	-	D	A	C
Daily Price Chg	1.98%	0.00%	-0.83%	-1.28%	0.10%	-3.41%
1 Week Price Chg	-1.01%	-0.66%	1.65%	-0.33%	-0.35%	2.85%
4 Week Price Chg	3.49%	-5.21%	-0.37%	0.67%	-7.09%	-3.73%
12 Week Price Chg	6.59%	-2.01%	3.74%	8.70%	-3.16%	18.33%
52 Week Price Chg	17.65%	-7.14%	14.14%	18.64%	6.42%	37.23%
20 Day Average Volume	735,298	41,097	1,992,841	1,890,109	3,045,715	22,884,126
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.15%	0.00%
(F1) EPS Est 4 week change	0.18%	-1.49%	-0.02%	-2.42%	1.44%	2.87%
(F1) EPS Est 12 week change	0.23%	-1.47%	-0.17%	-3.50%	1.58%	-0.48%
(Q1) EPS Est Mthly Chg	-1.13%	-1.13%	-0.48%	NA	-2.57%	0.56%

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	D
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.

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