

Rockwell Automation (ROK)

\$215.90 (As of 05/26/20)

Price Target (6-12 Months): **\$229.00**

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:A

Value: C

Growth: A

Momentum: A

Summary

Rockwell Automation's earnings estimates for the fiscal 2020 has undergone downward revisions lately. The company expects fiscal 2020 adjusted earnings per share between \$6.90 and \$7.70, indicating a year-over-year decline of 18.9% at the mid-point. Organic sales is expected to decline 20% in the fiscal third quarter. The slowdown in U.S manufacturing activity, weakness in the automotive, oil and gas and chemical markets as well as impact of the coronavirus outbreak are contributing to this grim outlook. However, the company plans to cut costs to mitigate the impact which is likely to generate \$150 million of savings in fiscal 2020. Growth in Information Solutions and Connected Services segment, contribution from acquisitions as well as inorganic investments will be conducive to its performance in the days ahead.

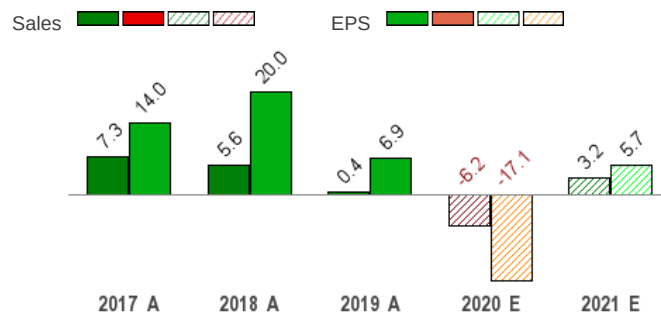
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$220.51 - \$115.38
20 Day Average Volume (sh)	1,066,168
Market Cap	\$25.0 B
YTD Price Change	6.5%
Beta	1.47
Dividend / Div Yld	\$4.08 / 1.9%
Industry	Industrial Automation and Robotics
Zacks Industry Rank	Bottom 33% (169 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	32.8%
Last Sales Surprise	4.8%
EPS F1 Est- 4 week change	-0.2%
Expected Report Date	07/23/2020
Earnings ESP	0.0%
P/E TTM	24.1
P/E F1	30.0
PEG F1	3.9
P/S TTM	3.7

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,514 E	1,718 E	1,657 E	1,774 E	6,482 E
2020	1,685 A	1,681 A	1,374 E	1,523 E	6,281 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	\$1.71 E	\$2.18 E	\$1.79 E	\$2.09 E	\$7.60 E
2020	\$2.11 A	\$2.43 A	\$1.07 E	\$1.62 E	\$7.19 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 05/26/2020. The reports text is as of 05/27/2020.

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.

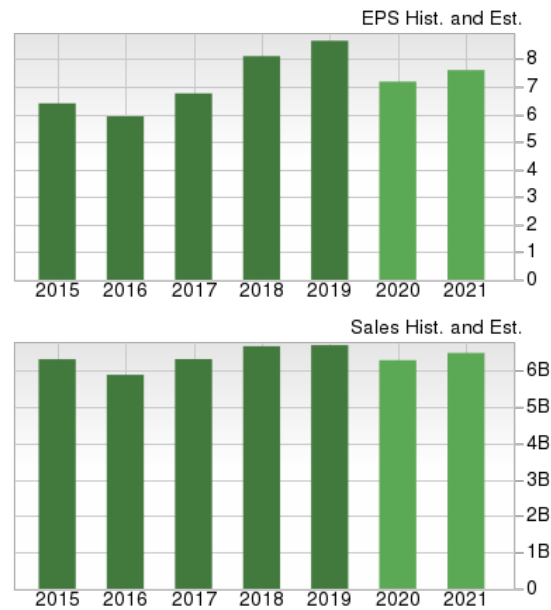
The company has two operating segments: Control Products & Solutions and Architecture & Software.

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. 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. 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. The segment sales is expected to reach \$400 million in fiscal 2020. 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. Moreover, the company's debt-to-capital ratio has increased over the past two years and pegged at 88.4% in fiscal 2019. 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 has increased over the past three years and is currently stands at 1.57. 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 entered into an agreement to acquire 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 expects the previously-announced acquisitions of ASEM and Kalypso to close in the next couple of weeks and boost its top-line growth in fiscal 2020.

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 has trimmed the guidance for fiscal 2020 given the rapidly-evolving situation of the coronavirus pandemic, and its possible impact on the company's global business operations, supply chains and financials. It expects adjusted earnings per share in the band of \$6.90-\$7.70. The mid-point of the guidance indicates a year-over-year decline of 18.9%. Organic sales growth is expected in the range of negative 9.5% to negative 6.5%, suggesting a year-on-year decline of 8% at the mid-point. The company's operations in China and Italy have been hit hard and near-term industrial production forecasts, daily sales and order intake capacity are expected to be low. Consequently, organic sales is expected to decline 20% in the fiscal third quarter. Further, unfavorable impact of volume and mix, and some disruptions in supply chain operations is likely to mar the company's solutions and services.
- ▼ Rockwell Automation expects discrete end markets to be down high single digits in fiscal 2020 as the Automotive sector is expected to witness steep decline. In the Hybrid industry, Food & Beverage and Tire is expected to down while Life Sciences will be flat. In Process industry, Oil and Gas market is expected to witness sharp decline while Mining/Aggregate/Cement (MAC) and Chemical is also expected to fall. 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 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 and 41.5% in April. Industrial production contracted 7.5% in the first quarter of 2020 while manufacturing output also slumped at an annual rate of 7.1%. These figures clearly indicate that the manufacturing sector has been impacted by the 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 oil and gas, automotive, and chemical markets. It will bear the brunt of tariffs.

Last Earnings Report

Rockwell Tops Q2 Earnings & Sales Estimates, Trims View

Rockwell Automation reported adjusted earnings of \$2.43 in second-quarter fiscal 2020 (ended Mar 31, 2020), beating the Zacks Consensus Estimate of 1.83. The bottom line increased 19% from the prior-year quarter figure of \$2.04, primarily on lower incentive compensation expense.

Including one-time items, the company's earnings came in at \$1.13 per share compared with the \$2.88 reported in the year-ago quarter.

Total revenues came in at \$1,681.3 million, up 1.5% from the prior-year quarter. Moreover, the top-line figure outpaced the Zacks Consensus Estimate of \$1,604 million. Organic sales in the quarter were down 0.2%, while foreign-currency translations had a negative impact of 1.5%. However, acquisitions contributed 3.2% to the increase in sales.

Operational Update

Cost of sales increased 3.6% year over year to \$983 million. Gross profit edged down 1.3% to around \$699 million from the year-ago quarter's \$708 million. Selling, general and administrative expenses declined 8.6% year over year to \$352 million.

Consolidated segment operating income totaled \$372 million, up 5% from the prior-year quarter figure of \$354 million. Segment operating margin was 22.1% in the fiscal second quarter compared with the prior-year quarter's 21.3%.

Segment Results

Architecture & Software: Net sales increased to \$757 million in the fiscal second quarter from the prior-year quarter's \$739.7 million. While organic sales were up 4%, currency translation had a negative impact of 1.7%. However, acquisitions contributed 0.1%. Segment operating earnings came in at \$233 million compared with the \$210 million reported in the prior-year quarter. Segment operating margin expanded 30.7% in the quarter compared with the year-ago quarter's 28.4%.

Control Products & Solutions: Net sales inched up 0.7% year over year to \$924 million in the reported quarter. Organic sales declined 3.6%, while currency translation reduced sales by 1.5%. Inorganic investments increased sales by 5.8%. Segment operating earnings declined 3.4% to \$139 million from the year-ago quarter. Segment operating margin was 15% compared with the prior-year quarter's 15.7%.

Financials

As of Mar 31, 2020, cash and cash equivalents totaled \$642 million, down from \$1,018 million as of Sep 30, 2019. As of Mar 31, 2020, total debt was \$1,970 million, up from \$1,956 million as of Sep 30, 2019.

Cash flow from operations in the fiscal second quarter was \$217.4 million compared with the \$143.8 million generated in the prior-year quarter. Return on invested capital was 25.9% as of Mar 31, 2020, compared with 39.6% as of Mar 31, 2019.

During the fiscal second quarter, Rockwell repurchased 0.6 million shares for \$106.2 million. As of the quarter end, \$902.2 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 \$6.90-\$7.70. Organic sales growth is expected in the range of negative 9.5% to negative 6.5%. Reported sales growth is expected in between a negative 6.5% and negative 3%. Inorganic sales growth is expected at around 4-4.5% for the year, while currency translation impact is expected to be a negative 1%.

The unfavorable impact of the coronavirus pandemic on the company's global business operations, supply chains and financials are difficult to predict at the moment. Moreover, Rockwell intends to close the previously-announced acquisitions of ASEM, S.p.A. and Kalypso, LP within the next few weeks.

Quarter Ending 03/2020

Report Date	Apr 28, 2020
Sales Surprise	4.83%
EPS Surprise	32.79%
Quarterly EPS	2.43
Annual EPS (TTM)	8.95

Recent News

Rockwell Automation Acquires ASEM, S.p.A - May 04, 2020

Rockwell Automation has completed the acquisition of an Italy-based leading provider of digital automation technologies ASEM, S.p.A. The latest buyout will further expand Rockwell Automation's Control & Visualization hardware and software portfolio within its Architecture & Software business segment.

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 up 42.4% over the trailing 12-month period. Stocks in the Industrial Automation and Robotics industry and the Zacks Industrial Products sector are up 31.6% and down 5.8% respectively, over the past year.

The S&P 500 index is up 6.6% in the past year.

The stock is currently trading at 29X forward 12-month earnings, which compares with 27.33X for the Zacks sub-industry, 20.65X for the Zacks sector and 21.76X for the S&P 500 index.

Over the past five years, the stock has traded as high as 29X and as low as 13.48X, with a 5-year median of 19.63X.

Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$229 price target reflects 30.75X 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	29	27.33	20.65	21.76
	5-Year High	29	27.33	20.65	21.76
	5-Year Low	13.48	14.13	12.55	15.23
	5-Year Median	19.63	18.96	16.66	17.49
P/S F12M	Current	3.9	3.05	2.63	3.37
	5-Year High	3.9	3.05	2.73	3.44
	5-Year Low	1.97	1.24	1.52	2.53
	5-Year Median	2.95	2.38	2	3.01
EV/EBITDA TTM	Current	17.94	14.29	15.47	11.07
	5-Year High	18.52	14.75	17.42	12.86
	5-Year Low	8.23	6.55	10.72	8.26
	5-Year Median	12.23	10.02	14.79	10.79

As of 05/26/2020

Industry Analysis Zacks Industry Rank: Bottom 33% (169 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
ABB Ltd (ABB)	Neutral	2
Dover Corporation (DOV)	Neutral	4
Emerson Electric Co. (EMR)	Neutral	3
Eaton Corporation, PLC (ETN)	Neutral	3
Honeywell International Inc. (HON)	Neutral	3
Micron Technology, Inc. (MU)	Neutral	4
Flowserve Corporation (FLS)	Underperform	5
Timken Company The (TKR)	Underperform	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	Neutral
Zacks Rank (Short Term)	3	-	-	2	3	4
VGM Score	A	-	-	C	A	B
Market Cap	25.01 B	1.68 B	21.18 B	42.11 B	35.41 B	50.94 B
# of Analysts	11	4	14	3	8	9
Dividend Yield	1.89%	0.51%	2.03%	2.66%	3.37%	0.00%
Value Score	C	-	-	C	B	A
Cash/Price	0.03	0.14	0.06	0.16	0.08	0.15
EV/EBITDA	23.09	7.77	12.37	14.18	9.54	3.89
PEG Ratio	3.87	7.74	2.88	2.29	3.09	2.40
Price/Book (P/B)	26.66	2.67	2.90	3.50	4.68	1.38
Price/Cash Flow (P/CF)	21.27	17.84	11.55	11.52	11.70	4.03
P/E (F1)	30.02	48.95	21.24	14.21	19.42	24.66
Price/Sales (P/S)	3.70	1.84	2.24	1.54	1.97	2.60
Earnings Yield	3.33%	2.39%	4.57%	7.05%	5.15%	4.06%
Debt/Equity	2.37	0.07	0.76	0.62	0.52	0.15
Cash Flow (\$/share)	10.15	2.79	6.96	1.69	5.07	11.36
Growth Score	A	-	-	F	B	D
Hist. EPS Growth (3-5 yrs)	9.61%	7.72%	10.87%	3.42%	2.96%	69.73%
Proj. EPS Growth (F1/F0)	-17.09%	-23.98%	-10.31%	10.22%	-17.29%	-70.75%
Curr. Cash Flow Growth	-0.65%	-11.13%	5.46%	-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	1.57	2.56	1.29	1.18	1.01	2.74
Debt/Capital	70.33%	7.11%	44.54%	38.38%	34.37%	13.61%
Net Margin	10.54%	10.54%	10.59%	4.68%	12.04%	11.72%
Return on Equity	118.85%	8.72%	16.29%	19.64%	26.66%	7.16%
Sales/Assets	1.04	0.92	0.55	0.59	0.85	0.40
Proj. Sales Growth (F1/F0)	-6.18%	-7.95%	-2.34%	-14.36%	-10.56%	-14.79%
Momentum Score	A	-	-	A	C	A
Daily Price Chg	6.78%	2.57%	2.82%	3.46%	6.09%	1.91%
1 Week Price Chg	2.18%	2.18%	4.99%	6.29%	5.53%	1.19%
4 Week Price Chg	10.10%	7.45%	3.55%	4.24%	3.02%	1.08%
12 Week Price Chg	17.38%	17.38%	-4.95%	-10.22%	-7.01%	-11.58%
52 Week Price Chg	42.44%	-11.77%	-3.04%	5.03%	-3.15%	39.04%
20 Day Average Volume	1,066,168	3,598	2,429,758	2,050,834	3,610,160	21,850,978
(F1) EPS Est 1 week change	0.08%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-0.21%	-11.24%	-2.27%	114.66%	-0.91%	-0.86%
(F1) EPS Est 12 week change	-19.37%	-33.01%	-16.39%	35.31%	-17.17%	-13.54%
(Q1) EPS Est Mthly Chg	-32.28%	-20.97%	-4.03%	NA	-3.63%	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	C
Growth Score	A
Momentum Score	A
VGM Score	A

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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