Rockwell Automation (ROK)

Updated February 17th, 2020 by Jonathan Weber

Key Metrics

Current Price:	$201	**5 Year CAGR Estimate:**	4.0%	**Market Cap:**	$23.3B
Fair Value Price:	$160	**5 Year Growth Estimate:**	6.5%	**Ex-Dividend Date:**	05/10/20[1]
% Fair Value:	125%	**5 Year Valuation Multiple Estimate:**	-4.4%	**Dividend Payment Date:**	06/10/20[2]
Dividend Yield:	2.0%	**5 Year Price Target**	$219	**Years Of Dividend Growth:**	10
Dividend Risk Score:	C	**Retirement Suitability Score:**	D	**Last Dividend Increase:**	5.2%

Overview & Current Events

Rockwell Automation is an industrial company that is active in the industrial automation and information segments. Its business units include Architecture & Software as well as Control Products & Solutions. The company was founded in 1928, is headquartered in Milwaukee, WI, produces about $7 billion in annual revenue, and is currently trading with a market capitalization of $23 billion.

Rockwell reported its first quarter (fiscal 2020) earnings results on January 29. Total revenue was $1.68 billion for the first quarter, which was up 2.4% against the previous year's quarter. Organic sales were down 1% year over year, while acquisitions added 4.5% to the company's reported revenue growth rate, more than offsetting the organic decline. Pre-tax margin was 19.9% of revenue for the quarter, up from 7.4% during the previous year's quarter. Rockwell Automation's margin during the previous year's quarter had been negatively impacted by asset write-downs, though, adjusted for that margins did decline slightly on a year-over-year basis. Rockwell Automation's margin during the most recent quarter was in line with the long-term average, at roughly 20%.

Rockwell Automation's first quarter earnings-per-share came in at $2.11 on an adjusted basis, which was down 5% versus the previous year's first quarter, while GAAP earnings rose massively, due to the asset write-down during the previous year's first quarter. Management has reiterated its guidance of earnings-per-share to fall into a range of $8.70 to $9.10 for the current fiscal year on the back of revenue growth of 2% - 5%, driven by acquisitions.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	$3.05	$4.79	$5.13	$5.36	$5.91	$6.09	$5.56	$6.35	$8.11	$8.67	***$8.90***	***$12.19***
DPS	$1.22	$1.48	$1.75	$1.98	$2.32	$2.60	$2.90	$3.04	$3.68	$3.88	***$4.08***	***$5.72***
Shares[3]	142	142	140	139	137	132	129	128	122	117	***114***	***110***

Between 2007 and 2019 Rockwell Automation grew its earnings-per-share at a very solid pace of 8% annually. Profits declined substantially during the financial crisis, though; between 2008 and 2009, Rockwell Automation's earnings-per-share were cut in half, which shows that the company's business is quite cyclical.

Rockwell Automation's strong earnings growth during fiscal 2018 was due to fundamental improvements and the impact of tax law changes. Higher sales, margin increases, a lower tax rate, and a decline in the company's share count explain how the company was able to grow its earnings-per-share by 28% during one single year. However, those gains were not repeated in fiscal 2019, and we expect a more moderate growth rate of 6%-7% annual annually in the future.

Rockwell sees long-term tailwinds from its China business, as well as from other emerging markets such as Brazil, Mexico, and other countries in Latin America. Trade troubles between the US and China, and worries about an economic slowdown around the globe have led to some deterioration in Rockwell's short-term growth outlook, and the company

[1] Estimated date
[2] Estimated date
[3] In Million

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sees roughly flat organic sales for fiscal 2020 as a result. Once international trade picks up again, Rockwell Automation should get back to being able to grow its organic sales regularly once again.

Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	16.9	15.8	14.3	16.2	19.9	18.7	19.7	23.6	23.4	19.1	***22.6***	***18.0***
Avg. Yld.	2.4%	1.9%	2.4%	2.3%	2.0%	2.3%	2.7%	2.0%	2.1%	2.3%	***2.0%***	***2.6%***

Rockwell Automation trades at almost 23 times the net profits that the company's management forecasts for the current fiscal year right now. This means that shares are trading well in excess of our estimate of fair value, which we see at 18 times earnings. The rally in the stock over the last couple of months has made it far less attractive on a valuation basis. We forecast a substantial multiple compression headwind to total returns in the coming years.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	40.0%	30.9%	34.1%	36.9%	39.3%	42.7%	52.2%	47.9%	45.4%	44.8%	***45.8%***	***46.9%***

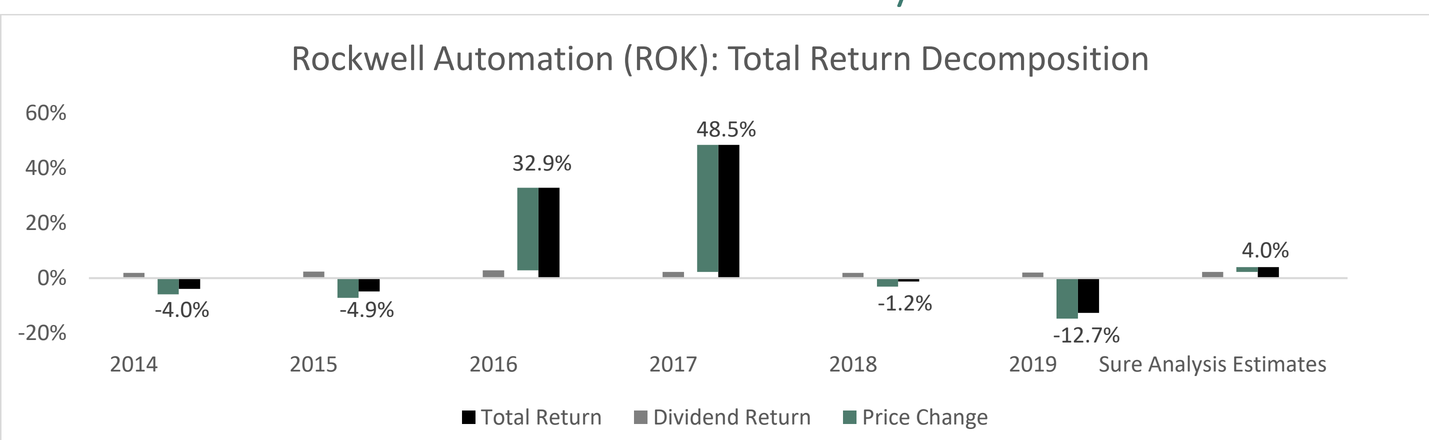
Rockwell's dividend payout ratio has been around 40% throughout the majority of the last decade, although the payout ratio was substantially higher during the last financial crisis. The company did not have to cut its dividend during the especially harsh recession, though, which makes us believe that the company's dividend is relatively safe, despite the cyclicality of Rockwell Automation's business.

Rockwell's earnings-per-share dropped by more than 50% from 2008 to 2009, which shows that the company is relatively vulnerable to broad economic downturns. During a more benign, smaller recession, the company would likely see its earnings-per-share decline to a much smaller degree. Rockwell is well positioned internationally, as it produces roughly half of its sales outside of the US. Rockwell's strong position in the higher-growth emerging markets could provide a growth advantage versus peers that are more focused on lower-growth markets in industrial countries.

Final Thoughts & Recommendation

Rockwell Automation operates a business that can be quite cyclical, but the company nevertheless managed to generate solid earnings-per-share growth throughout much more than the last decade, even though the last financial crisis was an exceptionally harsh recession. We still rate the stock a sell, though, as shares trade well in excess of our fair value estimate at current prices, which hurts the total return outlook.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	4857	6000	6259	6352	6624	6308	5880	6311	6666	6695
Gross Profit	1936	2390	2523	2574	2754	2703	2476	2668	2885	2900
Gross Margin	39.9%	39.8%	40.3%	40.5%	41.6%	42.9%	42.1%	42.3%	43.3%	43.3%
SG&A Exp.	1323	1461	1492	1538	1570	1506	1467	1558	1588	1539
D&A Exp.	127	131	139	145	153	163	172	169	165	152
Operating Profit	613	929	1031	1036	1184	1197	1008	1110	1297	1362
Operating Margin	12.6%	15.5%	16.5%	16.3%	17.9%	19.0%	17.1%	17.6%	19.5%	20.3%
Net Profit	464	698	737	756	827	828	730	826	536	696
Net Margin	9.6%	11.6%	11.8%	11.9%	12.5%	13.1%	12.4%	13.1%	8.0%	10.4%
Free Cash Flow	395	524	579	869	892	1065	830	892	1175	1049
Income Tax	104	171	229	225	307	300	213	212	795	205

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	4748	5285	5637	5845	6224	6405	7101	7162	6262	6113
Cash & Equivalents	813	989	904	1201	1191	1427	1526	1411	619	1018
Accounts Receivable		1063	1187	1186	1216	1041	1079	1136	1190	1179
Inventories	603	642	619	615	588	536	527	559	582	576
Goodwill & Int. Ass.	1130	1171	1158	1236	1297	1258	1329	1316	1291	1265
Total Liabilities	3288	3537	3785	3259	3566	4148	5111	4498	4645	5709
Accounts Payable	436	609	716	722	705	694	720	812	920	894
Long-Term Debt	905	905	1062	1084	1225	1501	1965	1844	1776	2257
Shareholder's Equity	1460	1748	1852	2586	2658	2257	1990	2664	1618	404
D/E Ratio	0.62	0.52	0.57	0.42	0.46	0.67	0.99	0.69	1.10	5.58

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	10.3%	13.9%	13.5%	13.2%	13.7%	13.1%	10.8%	11.6%	8.0%	11.2%
Return on Equity	33.4%	43.5%	40.9%	34.1%	31.5%	33.7%	34.4%	35.5%	25.0%	68.8%
ROIC	20.2%	27.8%	26.5%	23.0%	21.9%	21.7%	18.9%	19.5%	13.6%	23.0%
Shares Out.	142	142	140	139	137	132	129	128	122	117
Revenue/Share	33.73	41.33	43.65	45.08	47.41	46.48	44.85	48.59	52.53	56.12
FCF/Share	2.74	3.61	4.04	6.16	6.39	7.85	6.33	6.87	9.26	8.79

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.