# Rockwell Automation (ROK)

*Updated November 3rd, 2021 by Jonathan Weber*

## Key Metrics

| | | | | | |
|---|---|---|---|---|---|
| **Current Price:** | $339 | **5 Year CAGR Estimate:** | -0.9% | **Market Cap:** | $40B |
| **Fair Value Price:** | $216 | **5 Year Growth Estimate:** | 6.5% | **Ex-Dividend Date:** | 11/12/21[1] |
| **% Fair Value:** | 157% | **5 Year Valuation Multiple Estimate:** | -8.6% | **Dividend Payment Date:** | 12/10/21[2] |
| **Dividend Yield:** | 1.3% | **5 Year Price Target** | $296 | **Years Of Dividend Growth:** | 12 |
| **Dividend Risk Score:** | B | **Retirement Suitability Score:** | D | **Last Dividend Increase:** | 4.7% |

## 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, and produces over $8 billion in annual revenue.

Rockwell reported its fourth quarter (fiscal 2021) earnings results on November 2. Total revenue was $1.81 billion for the quarter, which was up 15% against the previous year's quarter. Organic sales were up 13% year-over-year, while acquisitions also had a positive impact on the company's revenue growth rate. Rockwell Automation's order intake hit a new record level, at more than $2 billion, which was up by more than 40% year-over-year.

Rockwell Automation's fourth quarter earnings-per-share came in at $2.33 on an adjusted basis, which was better than expected by the analyst community. Management believes that the impact that the coronavirus crisis has on its earnings will decline going forward. During fiscal 2021, Rockwell Automation generated earnings-per-share of $9.43, which set a new record. Management guides for earnings-per-share of $10.50 to $11.10 for the current year, fiscal 2022, which indicates that we will see another sizeable increase in the company's profits.

## Growth on a Per-Share Basis

| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2027 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **EPS** | $5.13 | $5.36 | $5.91 | $6.09 | $5.56 | $6.35 | $8.11 | $8.67 | $7.68 | $9.43 | ***$10.80*** | ***$14.80*** |
| **DPS** | $1.75 | $1.98 | $2.32 | $2.60 | $2.90 | $3.04 | $3.68 | $3.88 | $4.13 | $4.28 | ***$4.48*** | ***$6.28*** |
| **Shares[3]** | 140 | 139 | 137 | 132 | 129 | 128 | 122 | 118 | 117 | 117 | ***115*** | ***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 can be quite cyclical.

Rockwell Automation's strong earnings growth during fiscal 2018 and 2019 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. In fiscal 2020, however, Rockwell had to report lower profits, as the pandemic impacted its business considerably during the year, which is why its revenues and earnings declined versus pre-crisis levels. According to management, 2021 will see a reversal of that decline, however, and it is expected that Rockwell Automation's earnings-per-share will hit a new record level this year. Some of Rockwell's end markets are still feeling pandemic headwinds, but growth in other markets, and the positive impact of acquisitions, will allow Rockwell to grow its revenues meaningfully this year. 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, where the revenue growth outlook for Rockwell Automation is strong. Cost controls and buybacks have allowed the company to grow its EPS at a rate that is higher than its revenue growth in the past.

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

*Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.*

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## Valuation Analysis

| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | Now | 2027 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Avg. P/E** | 14.3 | 16.2 | 19.9 | 18.7 | 19.7 | 23.6 | 23.4 | 19.1 | 19.1 | 31.2 | ***31.4*** | ***20.0*** |
| **Avg. Yld.** | 2.4% | 2.3% | 2.0% | 2.3% | 2.7% | 2.0% | 2.1% | 2.3% | 2.3% | 1.3% | ***1.3%*** | ***2.1%*** |

Rockwell Automation trades at more than 30 times this year's expected net profits right now, based on management's current guidance midpoint. This means that shares are trading well in excess of our estimate of fair value, which we see at 20 times earnings. We thus forecast multiple compression headwinds to total returns in the coming years, as Rockwell Automation's valuation normalizes back towards a somewhat lower valuation.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2027 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Payout** | 34.1% | 36.9% | 39.3% | 42.7% | 52.2% | 47.9% | 45.4% | 44.8% | 53.8% | 45.4% | ***41.5%*** | ***42.5%*** |

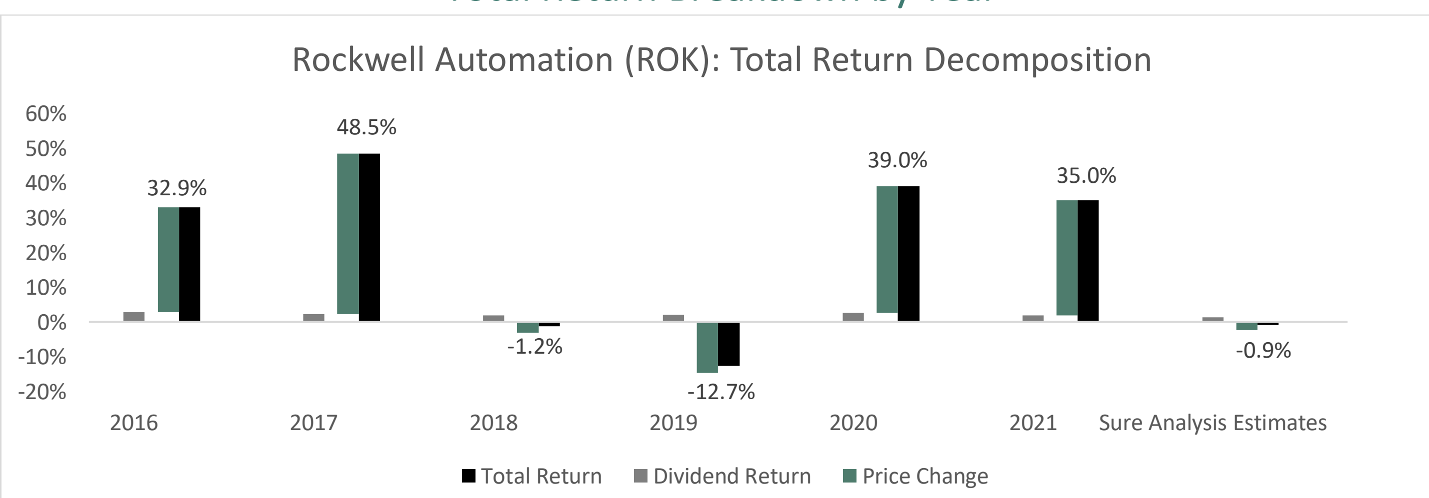
Rockwell's dividend payout ratio has been around 40%-50% throughout the majority of the last decade, although the payout ratio was substantially higher during the last financial crisis. The company did not have to cut its dividend during that especially harsh recession, though, which makes us believe 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 can be relatively vulnerable to broad economic downturns. During the coronavirus crisis, however, Rockwell Automation's profits did only decline slightly, by around 10%. Rockwell is well positioned internationally, as it generates 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. During 2021 the company's profits were up again, hitting a new record. Rockwell Automation should be even more profitable this year, in fiscal 2022. We rate the stock a sell, however, as shares trade well ahead of our fair value estimate at current prices, which hurts the total return outlook, and which explains why forecasted returns are not attractive.

## Total Return Breakdown by Year

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## Income Statement Metrics

| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|---|---|---|---|---|
| Revenue | 6,259 | 6,352 | 6,624 | 6,308 | 5,880 | 6,311 | 6,666 | 6,695 | 6,330 | 6,997 |
| Gross Profit | 2,523 | 2,574 | 2,754 | 2,703 | 2,476 | 2,668 | 2,885 | 2,900 | 2,595 | 2,898 |
| Gross Margin | 40.3% | 40.5% | 41.6% | 42.9% | 42.1% | 42.3% | 43.3% | 43.3% | 41.0% | 41.4% |
| SG&A Exp. | 1,492 | 1,538 | 1,570 | 1,506 | 1,467 | 1,558 | 1,588 | 1,539 | 1,480 | 1,680 |
| D&A Exp. | 139 | 145 | 153 | 163 | 172 | 169 | 165 | 152 | 173 | 190 |
| Operating Profit | 1,031 | 1,036 | 1,184 | 1,197 | 1,008 | 1,110 | 1,297 | 1,362 | 1,115 | 1,218 |
| Operating Margin | 16.5% | 16.3% | 17.9% | 19.0% | 17.1% | 17.6% | 19.5% | 20.3% | 17.6% | 17.4% |
| Net Profit | 737 | 756 | 827 | 828 | 730 | 826 | 536 | 696 | 1,023 | 1,358 |
| Net Margin | 11.8% | 11.9% | 12.5% | 13.1% | 12.4% | 13.1% | 8.0% | 10.4% | 16.2% | 19.4% |
| Free Cash Flow | 579 | 869 | 892 | 1,065 | 830 | 892 | 1,175 | 1,049 | 1,007 | 1,141 |
| Income Tax | 229 | 225 | 307 | 300 | 213 | 212 | 795 | 205 | 113 | 182 |

## Balance Sheet Metrics

| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|---|---|---|---|---|
| Total Assets | 5,637 | 5,845 | 6,224 | 6,405 | 7,101 | 7,162 | 6,262 | 6,113 | 7,265 | 10,702 |
| Cash & Equivalents | 904 | 1,201 | 1,191 | 1,427 | 1,526 | 1,411 | 619 | 1,018 | 705 | 662 |
| Accounts Receivable | 1,187 | 1,186 | 1,216 | 1,041 | 1,079 | 1,136 | 1,190 | 1,179 | 1,249 | 1,425 |
| Inventories | 619 | 615 | 588 | 536 | 527 | 559 | 582 | 576 | 584 | 798 |
| Goodwill & Int. Ass. | 1,158 | 1,236 | 1,297 | 1,258 | 1,329 | 1,316 | 1,291 | 1,265 | 2,130 | 4,648 |
| Total Liabilities | 3,785 | 3,259 | 3,566 | 4,148 | 5,111 | 4,498 | 4,645 | 5,709 | 5,918 | 8,008 |
| Accounts Payable | 548 | 547 | 521 | 522 | 543 | 623 | 713 | 695 | 688 | 890 |
| Long-Term Debt | 1,062 | 1,084 | 1,225 | 1,501 | 1,965 | 1,844 | 1,776 | 2,257 | 1,999 | 3,974 |
| Shareholder's Equity | 1,852 | 2,586 | 2,658 | 2,257 | 1,990 | 2,664 | 1,618 | 404 | 1,028 | 2,390 |
| D/E Ratio | 0.57 | 0.42 | 0.46 | 0.67 | 0.99 | 0.69 | 1.10 | 5.58 | 1.95 | 1.66 |

## Profitability & Per Share Metrics

| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|---|---|---|---|---|
| Return on Assets | 13.5% | 13.2% | 13.7% | 13.1% | 10.8% | 11.6% | 8.0% | 11.2% | 15.3% | 15.1% |
| Return on Equity | 40.9% | 34.1% | 31.5% | 33.7% | 34.4% | 35.5% | 25.0% | 68.8% | 143% | 79.5% |
| ROIC | 26.5% | 23.0% | 21.9% | 21.7% | 18.9% | 19.5% | 13.6% | 23.0% | 34.1% | 27.1% |
| Shares Out. | 140 | 139 | 137 | 132 | 129 | 128 | 122 | 118 | 117 | 117 |
| Revenue/Share | 43.65 | 45.08 | 47.41 | 46.48 | 44.85 | 48.59 | 52.53 | 56.12 | 54.29 | 59.76 |
| FCF/Share | 4.04 | 6.16 | 6.39 | 7.85 | 6.33 | 6.87 | 9.26 | 8.79 | 8.63 | 9.74 |

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