



Rockwell Automation (ROK)

Updated January 28th, 2022 by Jonathan Weber

Key Metrics

Current Price:	\$283	5 Year CAGR Estimate:	2.7%	Market Cap:	\$34B
Fair Value Price:	\$216	5 Year Growth Estimate:	6.5%	Ex-Dividend Date:	02/12/21 ¹
% Fair Value:	131%	5 Year Valuation Multiple Estimate:	-5.3%	Dividend Payment Date:	03/10/21 ²
Dividend Yield:	1.6%	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 first quarter (fiscal 2022) earnings results on January 27. Total revenue was \$1.86 billion for the quarter, which was up 19% against the previous year's quarter. Organic sales were up 17% 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 \$2.5 billion, which was up by more than 40% year-over-year.

Rockwell Automation's first quarter earnings-per-share came in at \$2.14 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
Shares³	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.

¹ Estimated date

² Estimated date

³ In Millions

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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	26.2	20.0
Avg. Yld.	2.4%	2.3%	2.0%	2.3%	2.7%	2.0%	2.1%	2.3%	2.3%	1.3%	1.6%	2.1%

Rockwell Automation trades at more than 26 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%

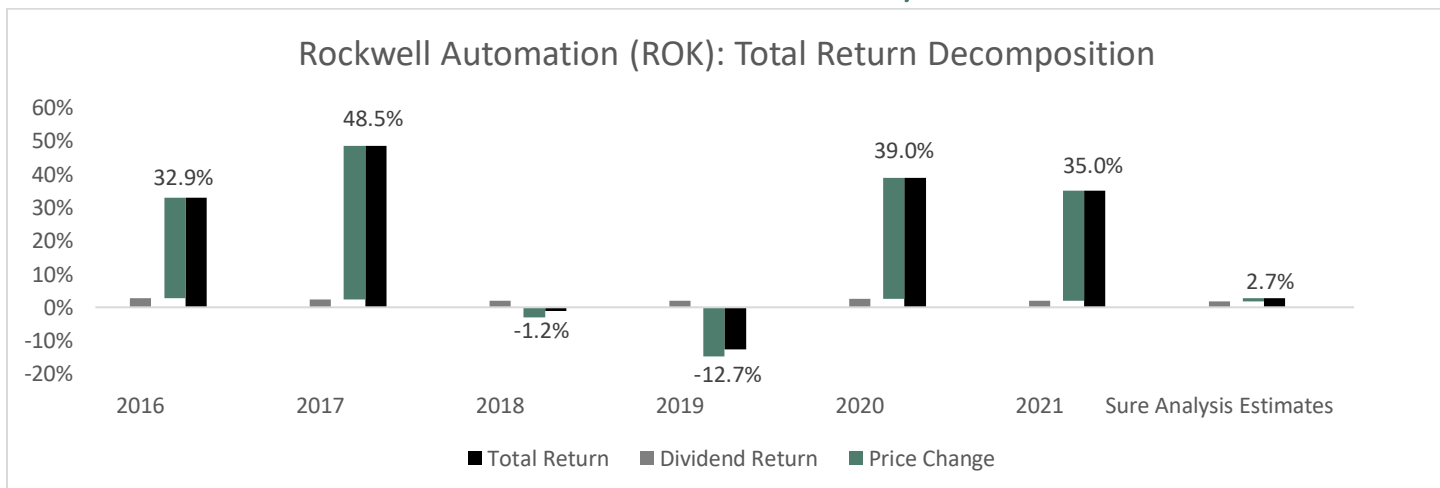
Rockwell's dividend payout ratio has been around 40%-50% throughout the majority of the last decade, although the payout ratio was substantially higher during the last financial crisis. The company did not have to cut its dividend during that especially harsh recession, though, which makes us believe that the company's dividend is relatively safe, despite the cyclicity 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. Shares still look expensive despite having declined since our last update.

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
LTD/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.

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