Rockwell Automation (ROK)

Updated May 17th, 2023 by Jonathan Weber

Key Metrics

Current Price:	$274	**5 Year CAGR Estimate:**	5.2%	**Market Cap:**	$31B
Fair Value Price:	$237	**5 Year Growth Estimate:**	6.5%	**Ex-Dividend Date:**	06/12/23[1]
% Fair Value:	116%	**5 Year Valuation Multiple Estimate:**	-2.9%	**Dividend Payment Date:**	07/10/23[2]
Dividend Yield:	1.7%	**5 Year Price Target**	$325	**Years Of Dividend Growth:**	13
Dividend Risk Score:	B	**Retirement Suitability Score:**	D	**Rating:**	Hold

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 about $8.7 billion in annual revenue.

Rockwell reported its second quarter (fiscal 2023) earnings results on April 27. Total revenue was $2.28 billion for the quarter, which was up 26% against the previous year's quarter. Organic sales were up 27% year-over-year, while currency rate changes had a negative impact on the company's revenue growth rate. Rockwell Automation was able to beat the consensus revenue estimate easily, by $190 million.

Rockwell Automation's second quarter earnings-per-share came in at $3.01 on an adjusted basis, which was significantly better than expected by the analyst community. Management believes that business growth will be strong this year. Revenues are seen growing by ~14% this year on the back of ~15% organic revenue growth. Management believes that earnings-per-share growth will be very solid as well, despite some inflation in the company's supply chain. Earnings-per-share are forecasted at around $11.85 in the current year, fiscal 2023.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	$5.36	$5.91	$6.09	$5.56	$6.35	$8.11	$8.67	$7.68	$9.43	$9.49	***$11.85***	***$16.24***
DPS	$1.98	$2.32	$2.60	$2.90	$3.04	$3.68	$3.88	$4.13	$4.28	$4.48	***$4.72***	***$6.62***
Shares[3]	139	137	132	129	128	122	118	117	117	115	***113***	***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. 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

Rockwell Automation (ROK)

Updated May 17th, 2023 by Jonathan Weber

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	16.2	19.9	18.7	19.7	23.6	23.4	19.1	19.1	31.2	22.7	***23.1***	***20.0***
Avg. Yld.	2.3%	2.0%	2.3%	2.7%	2.0%	2.1%	2.3%	2.3%	1.3%	2.1%	***1.7%***	***2.0%***

Rockwell Automation trades at more than 23 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 lower valuation.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	36.9%	39.3%	42.7%	52.2%	47.9%	45.4%	44.8%	53.8%	45.4%	47.2%	***39.8%***	***40.8%***

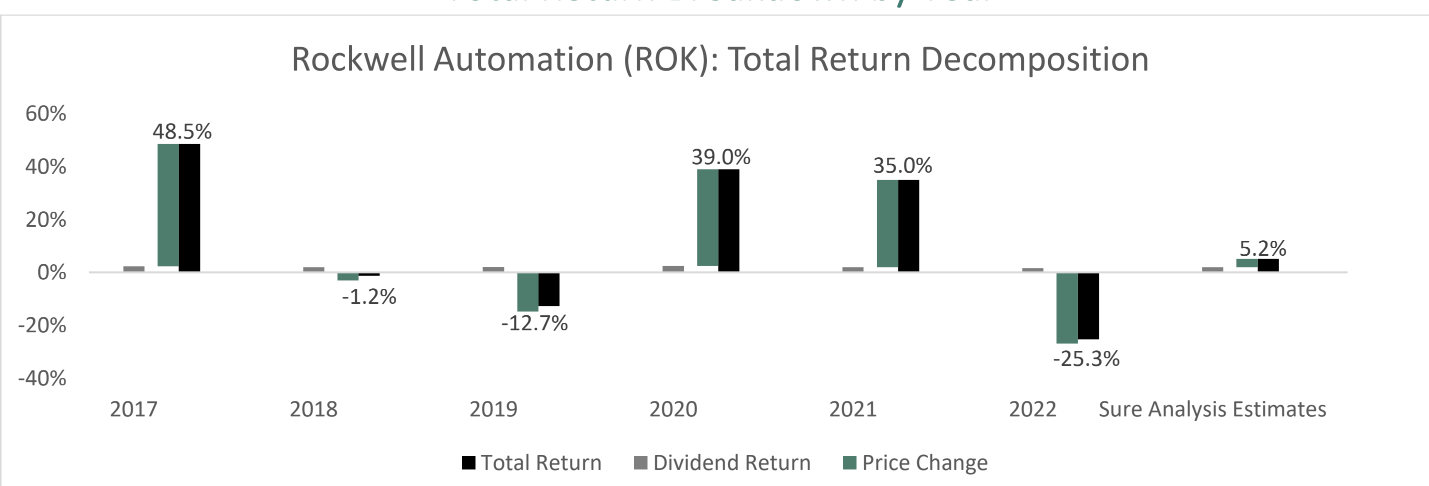
Rockwell's dividend payout ratio has been around 40%-50% throughout the majority of the last decade, although the payout ratio was substantially higher during the last financial crisis. The company did not have to cut its dividend during that especially harsh recession, though, which makes us believe 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 and 2022, the company's profits were up again, hitting new record highs. Rockwell Automation should be even more profitable this year, in fiscal 2023. We rate the stock a hold, however, as shares trade ahead of our fair value estimate at current prices, which hurts the total return outlook and which is why we see mid-single digit returns only.

Total Return Breakdown by Year



Click here to rate and review this research report. Your feedback is important to us.

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.

Rockwell Automation (ROK)

Updated May 17th, 2023 by Jonathan Weber

Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	6,352	6,624	6,308	5,880	6,311	6,666	6,695	6,330	6,997	7,760
Gross Profit	2,574	2,754	2,703	2,476	2,668	2,885	2,900	2,595	2,898	3,102
Gross Margin	40.5%	41.6%	42.9%	42.1%	42.3%	43.3%	43.3%	41.0%	41.4%	40.0%
SG&A Exp.	1,538	1,570	1,506	1,467	1,558	1,588	1,539	1,480	1,680	1,767
D&A Exp.	145	153	163	172	169	165	152	173	190	239
Operating Profit	1,036	1,184	1,197	1,008	1,110	1,297	1,362	1,115	1,218	1,335
Operating Margin	16.3%	17.9%	19.0%	17.1%	17.6%	19.5%	20.3%	17.6%	17.4%	17.2%
Net Profit	756	827	828	730	826	536	696	1,023	1,358	932
Net Margin	11.9%	12.5%	13.1%	12.4%	13.1%	8.0%	10.4%	16.2%	19.4%	12.0%
Free Cash Flow	869	892	1,065	830	892	1,175	1,049	1,007	1,141	682
Income Tax	225	307	300	213	212	795	205	113	182	155

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	5,845	6,224	6,405	7,101	7,162	6,262	6,113	7,265	10,702	10,759
Cash & Equivalents	1,201	1,191	1,427	1,526	1,411	619	1,018	705	662	491
Accounts Receivable	1,186	1,216	1,041	1,079	1,136	1,190	1,179	1,249	1,425	1,737
Inventories	615	588	536	527	559	582	576	584	798	1,054
Goodwill & Int. Ass.	1,236	1,297	1,258	1,329	1,316	1,291	1,265	2,130	4,648	4,426
Total Liabilities	3,259	3,566	4,148	5,111	4,498	4,645	5,709	5,918	8,008	7,742
Accounts Payable	547	521	522	543	623	713	695	688	890	1,028
Long-Term Debt	1,084	1,225	1,501	1,965	1,844	1,776	2,257	1,999	3,981	3,836
Shareholder's Equity	2,586	2,658	2,257	1,990	2,664	1,618	404	1,028	2,390	2,726
LTD/E Ratio	0.42	0.46	0.67	0.99	0.69	1.10	5.58	1.95	1.67	1.41

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	13.2%	13.7%	13.1%	10.8%	11.6%	8.0%	11.2%	15.3%	15.1%	8.7%
Return on Equity	34.1%	31.5%	33.7%	34.4%	35.5%	25.0%	68.8%	143%	79.5%	36.4%
ROIC	23.0%	21.9%	21.7%	18.9%	19.5%	13.6%	23.0%	34.1%	27.1%	13.8%
Shares Out.	139	137	132	129	128	122	118	117	117	115
Revenue/Share	45.08	47.41	46.48	44.85	48.59	52.53	56.12	54.29	59.76	66.50
FCF/Share	6.16	6.39	7.85	6.33	6.87	9.26	8.79	8.63	9.74	5.84

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