Rockwell Automation (ROK)

Updated November 2nd, 2023 by Jonathan Weber

Key Metrics

Current Price:	$264	**5 Year CAGR Estimate:**	7.6%	**Market Cap:**	$30B
Fair Value Price:	$255	**5 Year Growth Estimate:**	6.5%	**Ex-Dividend Date:**	12/12/23[1]
% Fair Value:	104%	**5 Year Valuation Multiple Estimate:**	-0.7%	**Dividend Payment Date:**	01/10/24[2]
Dividend Yield:	1.9%	**5 Year Price Target**	$349	**Years Of Dividend Growth:**	14
Dividend Risk Score:	B	**Retirement Suitability Score:**	C	**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 fourth quarter (fiscal 2023) earnings results on November 2. Total revenue was $2.56 billion for the quarter, which was up 20% against the previous year's quarter. Organic sales were up 18% year-over-year, which was stronger than the growth rate during the previous quarter, when organic growth was 13%. Rockwell Automation beat the consensus revenue estimate by $120 million.

Rockwell Automation's fourth quarter earnings-per-share came in at $3.64 on an adjusted basis, which was better than expected by the analyst community. Management believes that business growth will be slow this year, in fiscal 2024. Reported revenues are seen growing by 3% to 4% this year with ~1% organic revenue growth. Management believes that earnings-per-share growth will be solid at around 5% during the current fiscal year, as the company's current earnings-per-share forecast stands at $12.00 to $13.50 for fiscal 2024.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$5.91	$6.09	$5.56	$6.35	$8.11	$8.67	$7.68	$9.43	$9.49	$12.12	***$12.75***	***$17.47***
DPS	$2.32	$2.60	$2.90	$3.04	$3.68	$3.88	$4.13	$4.28	$4.48	$4.72	***$5.00***	***$7.01***
Shares[3]	137	132	129	128	122	118	117	117	115	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.

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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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	19.9	18.7	19.7	23.6	23.4	19.1	19.1	31.2	22.7	23.6	***20.7***	***20.0***
Avg. Yld.	2.0%	2.3%	2.7%	2.0%	2.1%	2.3%	2.3%	1.3%	2.1%	1.7%	***1.9%***	***2.0%***

Rockwell Automation trades at around 21 times this year's expected net profits right now, based on management's current guidance midpoint. This means that shares are trading slightly in excess of our estimate of fair value, which we see at 20 times earnings. We thus forecast a minor multiple compression headwind 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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	39.3%	42.7%	52.2%	47.9%	45.4%	44.8%	53.8%	45.4%	47.2%	38.9%	***39.2%***	***40.1%***

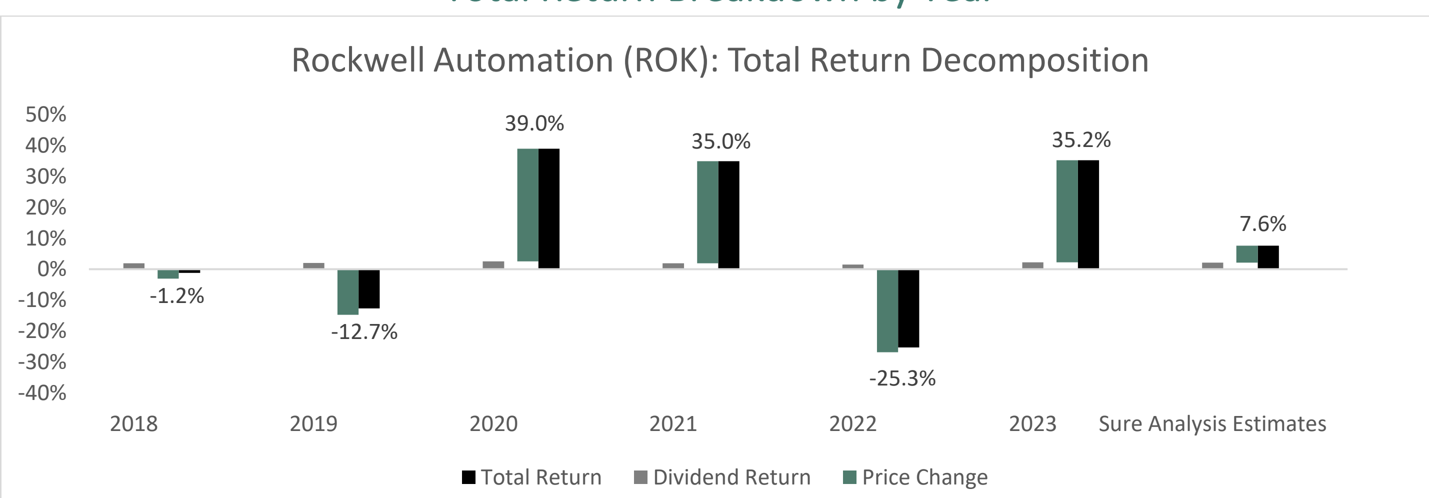
Rockwell's dividend payout ratio has been around 40%-50% throughout the majority of the last decade, although the payout ratio was substantially higher during the last financial crisis. The company did not have to cut its dividend during that especially harsh recession, though, which makes us believe 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. Over the last couple of years, the company's profits were up nicely, hitting new record highs. Rockwell Automation should be even more profitable this year, in fiscal 2024. 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 for the company going forward.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	6,624	6,308	5,880	6,311	6,666	6,695	6,330	6,997	7,760	9,058
Gross Profit	2,754	2,703	2,476	2,668	2,885	2,900	2,595	2,898	3,102	3,717
Gross Margin	41.6%	42.9%	42.1%	42.3%	43.3%	43.3%	41.0%	41.4%	40.0%	41.0%
SG&A Exp.	1,570	1,506	1,467	1,558	1,588	1,539	1,480	1,680	1,767	2,024
D&A Exp.	153	163	172	169	165	152	173	190	239	250
Operating Profit	1,184	1,197	1,008	1,110	1,297	1,362	1,115	1,218	1,335	1,693
Operating Margin	17.9%	19.0%	17.1%	17.6%	19.5%	20.3%	17.6%	17.4%	17.2%	18.7%
Net Profit	827	828	730	826	536	696	1,023	1,358	932	1,387
Net Margin	12.5%	13.1%	12.4%	13.1%	8.0%	10.4%	16.2%	19.4%	12.0%	15.3%
Free Cash Flow	892	1,065	830	892	1,175	1,049	1,007	1,141	682	1,214
Income Tax	307	300	213	212	795	205	113	182	155	331

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	6,224	6,405	7,101	7,162	6,262	6,113	7,265	10,702	10,759	11,304
Cash & Equivalents	1,191	1,427	1,526	1,411	619	1,018	705	662	491	1,072
Accounts Receivable	1,216	1,041	1,079	1,136	1,190	1,179	1,249	1,425	1,737	2,167
Inventories	588	536	527	559	582	576	584	798	1,054	1,405
Goodwill & Int. Ass.	1,297	1,258	1,329	1,316	1,291	1,265	2,130	4,648	4,426	4,382
Total Liabilities	3,566	4,148	5,111	4,498	4,645	5,709	5,918	8,008	7,742	7,561
Accounts Payable	521	522	543	623	713	695	688	890	1,028	1,150
Long-Term Debt	1,225	1,501	1,965	1,844	1,776	2,257	1,999	3,981	3,836	2,966
Shareholder's Equity	2,658	2,257	1,990	2,664	1,618	404	1,028	2,390	2,726	3,562
LTD/E Ratio	0.46	0.67	0.99	0.69	1.10	5.58	1.95	1.67	1.41	0.83

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	13.7%	13.1%	10.8%	11.6%	8.0%	11.2%	15.3%	15.1%	8.7%	12.6%
Return on Equity	31.5%	33.7%	34.4%	35.5%	25.0%	68.8%	143%	79.5%	36.4%	44.1%
ROIC	21.9%	21.7%	18.9%	19.5%	13.6%	23.0%	34.1%	27.1%	13.8%	20.5%
Shares Out.	137	132	129	128	122	118	117	117	115	115
Revenue/Share	47.41	46.48	44.85	48.59	52.53	56.12	54.29	59.76	66.50	78.36
FCF/Share	6.39	7.85	6.33	6.87	9.26	8.79	8.63	9.74	5.84	10.50

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