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Rockwell Automation Reports Third Quarter 2015 Results

July 29, 2015

- Organic sales up 2.2 percent year over year; reported sales down 4.5 percent
- Adjusted EPS of \$1.59 — up 7 percent year over year; diluted EPS of \$1.52
- Company narrows fiscal 2015 Adjusted EPS guidance range to \$6.55 - \$6.70

MILWAUKEE--(BUSINESS WIRE)--Jul. 29, 2015-- Rockwell Automation, Inc. (NYSE: ROK) today reported fiscal 2015 third quarter sales of \$1,575.2 million, down 4.5 percent from \$1,649.5 million in the third quarter of fiscal 2014. Organic sales grew 2.2 percent, and currency translation reduced sales by 6.8 percent.

Fiscal 2015 third quarter Adjusted EPS was \$1.59, up 7 percent compared to \$1.49 in the third quarter of fiscal 2014. Total segment operating earnings were \$343.7 million in the third quarter of fiscal 2015, up 5 percent from \$326.1 million in the same period of fiscal 2014. Total segment operating margin expanded to 21.8 percent from 19.8 percent a year ago, primarily due to higher organic sales and strong productivity, partially offset by increased spending.

On a GAAP basis, fiscal 2015 third quarter net income was \$206.1 million or \$1.52 per share, compared to \$199.7 million or \$1.43 per share in the third quarter of fiscal 2014. Pre-tax margin increased to 18.1 percent in the third quarter of fiscal 2015 from 16.6 percent in the same period last year.

Commenting on the results, Keith D. Nosbusch, chairman and chief executive officer, said, "I am pleased with our performance in the quarter. We delivered another quarter of solid earnings growth, significant margin expansion, and strong free cash flow despite continued headwinds from currency and a low growth environment. Through three quarters, Adjusted EPS was up 12 percent on lower reported sales. Our results demonstrate excellent execution in these market conditions."

Outlook

Commenting on the outlook, Nosbusch added, "Given decelerating industrial production growth, we are lowering the midpoint of our full-year organic growth guidance by 1 point. We expect fiscal 2015 reported sales of approximately \$6.4 billion, and are narrowing our fiscal 2015 Adjusted EPS guidance range to \$6.55 to \$6.70.

"We remain focused on innovation, and I am confident in our ability to deliver attractive shareowner returns while we continue to invest in profitable growth opportunities."

Following is a discussion of fiscal 2015 third quarter results for both segments.

Architecture & Software

Architecture & Software quarterly sales were \$683.5 million, a decrease of 4.4 percent compared to \$715.2 million in the same period last year. Organic sales increased 3.1 percent, and currency translation reduced sales by 7.5 percent. Segment operating earnings were \$199.9 million compared to \$204.8 million in the same period last year. Segment operating margin increased to 29.2 percent from 28.6 percent a year ago.

Control Products & Solutions

Control Products & Solutions quarterly sales were \$891.7 million, a decrease of 4.6 percent compared to \$934.3 million in the same period last year. Organic sales increased 1.6 percent, and currency translation reduced sales by 6.3 percent. Segment operating earnings were \$143.8 million compared to \$121.3 million in the same period last year. Segment operating margin increased to 16.1 percent from 13.0 percent a year ago.

NYSE:ROK**\$257.15**

Change: -12.02 (-4.47%)

Volume: 685,489

December 15, 2022
20 minutes delay

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Fiscal 2015 third quarter general corporate-net expense was \$21.9 million compared to \$18.1 million in the third quarter of fiscal 2014.

The Adjusted Effective Tax Rate for the third quarter of fiscal 2015 was 27.9 percent compared to 27.6 percent in the third quarter of fiscal 2014. The Company now expects a full-year Adjusted Effective Tax Rate for fiscal 2015 of approximately 27 percent. On a GAAP basis, the effective tax rate in the third quarter of fiscal 2015 was 27.6 percent compared to 27.1 percent a year ago.

During the third quarter of fiscal 2015, the Company repurchased 956 thousand shares of its common stock at a cost of \$115.3 million. At June 30, 2015, \$641.7 million remained available under the existing share repurchase authorization.

Organic sales, total segment operating earnings, total segment operating margin, Adjusted Income, Adjusted EPS, Adjusted Effective Tax Rate, free cash flow and return on invested capital are non-GAAP measures that are reconciled to GAAP measures in the attachments to this release.

Conference Call

A conference call to discuss our financial results will take place at 8:30 a.m. Eastern Time on Wednesday, July 29, 2015. The call and related financial charts will be webcast and accessible via the Rockwell Automation website (<http://www.rockwellautomation.com/investors/>).

This news release contains statements (including certain projections and business trends) that are “forward-looking statements” as defined in the Private Securities Litigation Reform Act of 1995. Words such as “believe”, “estimate”, “project”, “plan”, “expect”, “anticipate”, “will”, “intend” and other similar expressions may identify forward-looking statements. Actual results may differ materially from those projected as a result of certain risks and uncertainties, many of which are beyond our control, including but not limited to:

- macroeconomic factors, including global and regional business conditions, the availability and cost of capital, commodity prices, the cyclical nature of our customers' capital spending, sovereign debt concerns and currency exchange rates;
- laws, regulations and governmental policies affecting our activities in the countries where we do business;
- the successful development of advanced technologies and demand for and market acceptance of new and existing products;
- the availability, effectiveness and security of our information technology systems;
- competitive products, solutions and services and pricing pressures, and our ability to provide high quality products, solutions and services;
- a disruption of our business due to natural disasters, pandemics, acts of war, strikes, terrorism, social unrest or other causes;
- intellectual property infringement claims by others and the ability to protect our intellectual property;
- the uncertainty of claims by taxing authorities in the various jurisdictions where we do business;
- our ability to attract and retain qualified personnel;
- our ability to manage costs related to employee retirement and health care benefits;
- the uncertainties of litigation, including liabilities related to the safety and security of the products, solutions and services we sell;
- our ability to manage and mitigate the risks associated with our solutions and services businesses;
- a disruption of our distribution channels;
- the availability and price of components and materials;
- the successful integration and management of acquired businesses;
- the successful execution of our cost productivity and globalization initiatives; and
- other risks and uncertainties, including but not limited to those detailed from time to time in our Securities and Exchange Commission (SEC) filings.

These forward-looking statements reflect our beliefs as of the date of filing this release. We undertake no obligation to update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.



ROCKWELL AUTOMATION, INC.
SALES AND EARNINGS INFORMATION
(in millions, except per share amounts and percentages)

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2015	2014	2015	2014
Sales				
Architecture & Software (a)	\$ 683.5	\$ 715.2	\$ 2,065.6	\$ 2,097.9
Control Products & Solutions (b)	891.7	934.3	2,634.8	2,743.8
Total sales (c)	<u>\$ 1,575.2</u>	<u>\$ 1,649.5</u>	<u>\$ 4,700.4</u>	<u>\$ 4,841.7</u>
Segment operating earnings				
Architecture & Software (d)	\$ 199.9	\$ 204.8	\$ 622.1	\$ 606.9
Control Products & Solutions (e)	143.8	121.3	402.6	349.3
Total segment operating earnings ¹ (f)	343.7	326.1	1,024.7	956.2
Purchase accounting depreciation and amortization	(5.2)	(5.5)	(15.8)	(15.9)
General corporate—net	(21.9)	(18.1)	(66.1)	(58.7)
Non-operating pension costs	(15.6)	(14.1)	(47.2)	(42.1)
Interest expense	(16.4)	(14.4)	(47.0)	(44.3)
Income before income taxes (g)	284.6	274.0	848.6	795.2
Income tax provision	(78.5)	(74.3)	(222.3)	(217.1)
Net income	<u>\$ 206.1</u>	<u>\$ 199.7</u>	<u>\$ 626.3</u>	<u>\$ 578.1</u>
Diluted EPS	<u>\$ 1.52</u>	<u>\$ 1.43</u>	<u>\$ 4.60</u>	<u>\$ 4.12</u>
Adjusted EPS ²	<u>\$ 1.59</u>	<u>\$ 1.49</u>	<u>\$ 4.82</u>	<u>\$ 4.32</u>
Average diluted shares	<u>135.5</u>	<u>139.6</u>	<u>136.1</u>	<u>140.0</u>
Segment operating margin				
Architecture & Software (d/a)	29.2 %	28.6 %	30.1 %	28.9 %
Control Products & Solutions (e/b)	16.1 %	13.0 %	15.3 %	12.7 %
Total segment operating margin ¹ (f/c)	21.8 %	19.8 %	21.8 %	19.7 %
Pre-tax margin (g/c)	18.1 %	16.6 %	18.1 %	16.4 %

¹Total segment operating earnings and total segment operating margin are non-GAAP financial measures. We exclude purchase accounting depreciation and amortization, general corporate - net, non-operating pension costs, interest expense and income tax provision because we do not consider these costs to be directly related to the operating performance of our segments. We believe that these measures are useful to investors as measures of operating performance. We use these measures to monitor and evaluate the profitability of our Company. Our measures of total segment operating earnings and total segment operating margin may be different from those used by other companies.

²Adjusted EPS is a non-GAAP earnings measure that excludes the non-operating pension costs and their related income tax effects. See "Other Supplemental Information - Adjusted Income, Adjusted EPS and Adjusted Effective Tax Rate" section for more information regarding non-operating pension costs and a reconciliation to GAAP measures.

ROCKWELL AUTOMATION, INC.
CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
(in millions)

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2015	2014	2015	2014
Sales	\$ 1,575.2	\$ 1,649.5	\$ 4,700.4	\$ 4,841.7
Cost of sales	(897.0)	(968.0)	(2,661.5)	(2,840.7)
Gross profit	678.2	681.5	2,038.9	2,001.0
Selling, general and administrative expenses	(376.4)	(394.4)	(1,145.7)	(1,172.3)
Other (expense) income	(0.8)	1.3	2.4	10.8
Interest expense	(16.4)	(14.4)	(47.0)	(44.3)
Income before income taxes	284.6	274.0	848.6	795.2

ROCKWELL AUTOMATION, INC.
CONDENSED BALANCE SHEET INFORMATION
(in millions)

	June 30, 2015	September 30, 2014
Assets		
Cash and cash equivalents	\$ 1,567.2	\$ 1,191.3
Short-term investments	590.6	628.5
Receivables	1,084.3	1,215.8
Inventories	599.4	588.4
Property, net	590.7	632.9
Goodwill and intangibles	1,284.5	1,296.8
Other assets	689.8	675.8
Total	<u>\$ 6,406.5</u>	<u>\$ 6,229.5</u>
Liabilities and Shareowners' Equity		
Short-term debt	\$ —	\$ 325.0
Accounts payable	547.1	520.6
Long-term debt	1,492.2	905.6
Other liabilities	1,811.2	1,820.2
Shareowners' equity	2,556.0	2,658.1
Total	<u>\$ 6,406.5</u>	<u>\$ 6,229.5</u>

ROCKWELL AUTOMATION, INC.
CONDENSED CASH FLOW INFORMATION
(in millions)

	Nine Months Ended June 30,	
	2015	2014
Operating activities:		
Income from continuing operations	\$ 626.3	\$ 578.1
Depreciation and amortization	120.9	114.4
Retirement benefits expense	106.4	100.0
Pension contributions	(30.9)	(32.7)
Receivables/inventories/payables	69.1	4.2
Advanced payments from customers and deferred revenue	26.2	25.5
Compensation and benefits	(58.1)	(21.3)
Income taxes	(12.7)	(29.1)
Other	(7.5)	(31.7)
Cash provided by operating activities	<u>839.7</u>	<u>707.4</u>
Investing activities:		
Capital expenditures	(83.2)	(96.4)
Acquisition of businesses, net of cash acquired	(21.2)	(81.5)
Purchases of short-term investments	(470.8)	(487.0)
Proceeds from maturities of short-term investments	501.8	285.3
Proceeds from sale of property	2.0	0.3
Other investing activities	—	(3.4)
Cash used for investing activities	<u>(71.4)</u>	<u>(382.7)</u>
Financing activities:		
Net (repayment) issuance of short-term debt	(325.0)	100.9
Issuance of long-term debt, net of discount and issuance costs	594.3	—
Cash dividends	(263.3)	(240.9)
Purchases of treasury stock	(404.8)	(345.2)
Proceeds from the exercise of stock options	55.5	104.7
Excess income tax benefit from share-based compensation	12.2	29.1
Other financing activities	(1.6)	—
Cash used for financing activities	<u>(332.7)</u>	<u>(351.4)</u>
Effect of exchange rate changes on cash	(59.7)	0.9
Increase (decrease) in cash and cash equivalents	<u>\$ 375.9</u>	<u>\$ (25.8)</u>

ROCKWELL AUTOMATION, INC.
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(in millions)

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because it reflects regional and operating segment performance from our activities without the effect of changes in currency exchange rates and/or acquisitions. We use organic sales as one measure to monitor and evaluate our regional and operating segment performance. We determine the effect of changes in currency exchange rates by translating the respective period's sales using the currency exchange rates that were in effect during the prior year. When we acquire businesses, we exclude sales in the current year for which there are no comparable sales in the prior period. Organic sales growth is calculated by comparing organic sales to reported sales in the prior year. Sales are attributed to the geographic regions based on the country of destination.

The following is a reconciliation of reported sales to organic sales for the three and nine months ended June 30, 2015 compared to sales for the three and nine months ended June 30, 2014:

	Three Months Ended June 30,					
	2015					2014
	Sales	Effect of Changes in Currency	Excluding Effect of Changes in Currency	Effect of Acquisitions	Organic Sales	Sales
United States	\$ 872.4	\$ 1.0	\$ 873.4	\$ (1.4)	\$ 872.0	\$ 845.9
Canada	93.1	11.7	104.8	—	104.8	113.3
Europe, Middle East, Africa	285.4	65.7	351.1	—	351.1	336.7
Asia Pacific	215.0	8.8	223.8	—	223.8	220.5
Latin America	109.3	25.2	134.5	—	134.5	133.1
Total	<u>\$ 1,575.2</u>	<u>\$ 112.4</u>	<u>\$ 1,687.6</u>	<u>\$ (1.4)</u>	<u>\$ 1,686.2</u>	<u>\$ 1,649.5</u>

	Nine Months Ended June 30,					
	2015					2014
	Sales	Effect of Changes in Currency	Excluding Effect of Changes in Currency	Effect of Acquisitions	Organic Sales	Sales
United States	\$ 2,572.4	\$ 2.7	\$ 2,575.1	\$ (4.4)	\$ 2,570.7	\$ 2,515.2
Canada	278.9	30.1	309.0	—	309.0	321.0
Europe, Middle East, Africa	868.2	150.6	1,018.8	(2.7)	1,016.1	1,001.1
Asia Pacific	621.6	21.9	643.5	—	643.5	627.8
Latin America	359.3	56.5	415.8	—	415.8	376.6
Total	<u>\$ 4,700.4</u>	<u>\$ 261.8</u>	<u>\$ 4,962.2</u>	<u>\$ (7.1)</u>	<u>\$ 4,955.1</u>	<u>\$ 4,841.7</u>

The following is a reconciliation of reported sales to organic sales for our operating segments for the three and nine months ended June 30, 2015 compared to sales for the three and nine months ended June 30, 2014:

	Three Months Ended June 30,					
	2015					2014
	Sales	Effect of Changes in Currency	Excluding Effect of Changes in Currency	Effect of Acquisitions	Organic Sales	Sales
Architecture & Software	\$ 683.5	\$ 53.8	\$ 737.3	\$ —	\$ 737.3	\$ 715.2
Control Products & Solutions	891.7	58.6	950.3	(1.4)	948.9	934.3
Total	<u>\$ 1,575.2</u>	<u>\$ 112.4</u>	<u>\$ 1,687.6</u>	<u>\$ (1.4)</u>	<u>\$ 1,686.2</u>	<u>\$ 1,649.5</u>

	Nine Months Ended June 30,					
	2015					2014
	Sales	Effect of Changes in Currency	Excluding Effect of Changes in Currency	Effect of Acquisitions	Organic Sales	Sales
Architecture & Software	\$ 2,065.6	\$ 125.0	\$ 2,190.6	\$ (2.2)	\$ 2,188.4	\$ 2,097.9
Control Products & Solutions	2,634.8	136.8	2,771.6	(4.9)	2,766.7	2,743.8
Total	<u>\$ 4,700.4</u>	<u>\$ 261.8</u>	<u>\$ 4,962.2</u>	<u>\$ (7.1)</u>	<u>\$ 4,955.1</u>	<u>\$ 4,841.7</u>

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Our press release contains financial information and earnings guidance regarding Adjusted Income, Adjusted EPS and Adjusted Effective Tax Rate, which are non-GAAP earnings measures that exclude non-operating pension costs and their related income tax effects. We define non-operating pension costs as defined benefit plan interest cost, expected return on plan assets, amortization of actuarial gains and losses and the impact of any plan curtailments or settlements. These components of net periodic benefit cost primarily relate to changes in pension assets and liabilities that are a result of market performance; we consider these costs to be unrelated to the operating performance of our business. We believe that Adjusted Income, Adjusted EPS and Adjusted Effective Tax Rate provide useful information to our investors about our operating performance and allow management and investors to compare our operating performance period over period. Our measures of Adjusted Income, Adjusted EPS and Adjusted Effective Tax Rate may be different from measures used by other companies. These non-GAAP measures should not be considered a substitute for income from continuing operations, diluted EPS and effective tax rate.

The following are the components of operating and non-operating pension costs for the three and nine months ended June 30, 2015 and 2014:

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2015	2014	2015	2014
Service cost	\$ 21.3	\$ 19.7	\$ 64.5	\$ 59.0
Amortization of prior service credit	(0.7)	(0.7)	(2.0)	(2.1)
Operating pension costs	20.6	19.0	62.5	56.9
Interest cost	41.7	43.6	125.6	130.8
Expected return on plan assets	(55.7)	(54.5)	(167.6)	(163.5)
Amortization of net actuarial loss	29.6	25.0	89.2	74.8
Non-operating pension costs	15.6	14.1	47.2	42.1
Net periodic pension cost	\$ 36.2	\$ 33.1	\$ 109.7	\$ 99.0

The following are reconciliations of income from continuing operations, diluted EPS from continuing operations, and effective tax rate to Adjusted Income, Adjusted EPS and Adjusted Effective Tax Rate:

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2015	2014	2015	2014
Income from continuing operations	\$ 206.1	\$ 199.7	\$ 626.3	\$ 578.1
Non-operating pension costs	15.6	14.1	47.2	42.1
Tax effect of non-operating pension costs	(5.4)	(5.1)	(16.4)	(15.1)
Adjusted Income	\$ 216.3	\$ 208.7	\$ 657.1	\$ 605.1
Diluted EPS from continuing operations	\$ 1.52	\$ 1.43	\$ 4.60	\$ 4.12
Non-operating pension costs per diluted share	0.11	0.10	0.34	0.30
Tax effect of non-operating pension costs per diluted share	(0.04)	(0.04)	(0.12)	(0.10)
Adjusted EPS	\$ 1.59	\$ 1.49	\$ 4.82	\$ 4.32
Effective tax rate	27.6 %	27.1 %	26.2 %	27.3 %
Tax effect of non-operating pension costs	0.3 %	0.5 %	0.4 %	0.4 %
Adjusted Effective Tax Rate	27.9 %	27.6 %	26.6 %	27.7 %

	Fiscal 2015 Guidance	Year Ended September 30, 2014
Diluted EPS from continuing operations	\$6.25 - \$6.40	\$ 5.91
Non-operating pension costs per diluted share	0.46	0.40
Tax effect of non-operating pension costs per diluted share	(0.16)	(0.14)
Adjusted EPS	\$6.55 - \$6.70	\$ 6.17

ROCKWELL AUTOMATION, INC.
OTHER SUPPLEMENTAL INFORMATION
(in millions, except percentages)

Free Cash Flow

Our definition of free cash flow, which is a non-GAAP financial measure, takes into consideration capital investments

In our opinion, free cash flow provides useful information to investors regarding our ability to generate cash from business operations that is available for acquisitions and other investments, service of debt principal, dividends and share repurchases. We use free cash flow, as defined, as one measure to monitor and evaluate performance. Our definition of free cash flow may be different from definitions used by other companies.

The following table summarizes free cash flow by quarter:

	Quarter Ended						
	Dec. 31, 2013	Mar. 31, 2014	Jun. 30, 2014	Sep. 30, 2014	Dec. 31, 2014	Mar. 31, 2015	Jun. 30, 2015
Cash provided by continuing operating activities	\$203.5	\$202.8	\$301.1	\$325.9	\$268.2	\$285.2	\$286.3
Capital expenditures	(35.6)	(22.7)	(38.1)	(44.6)	(40.0)	(18.0)	(25.2)
Excess income tax benefit from share-based compensation	10.7	7.9	10.5	0.8	4.4	2.2	5.6
Free cash flow	<u>\$178.6</u>	<u>\$188.0</u>	<u>\$273.5</u>	<u>\$282.1</u>	<u>\$232.6</u>	<u>\$269.4</u>	<u>\$266.7</u>

Return On Invested Capital

Our press release contains information regarding Return On Invested Capital (ROIC), which is a non-GAAP financial measure. We believe that ROIC is useful to investors as a measure of performance and of the effectiveness of the use of capital in our operations. We use ROIC as one measure to monitor and evaluate performance. Our measure of ROIC may be different from that used by other companies. We define ROIC as the percentage resulting from the following calculation:

(a) Income from continuing operations, before interest expense, income tax provision, and purchase accounting depreciation and amortization, for the most recent twelve months; divided by

(b) average invested capital for the year, calculated as a five quarter rolling average using the sum of short-term debt, long-term debt, shareowners' equity, and accumulated amortization of goodwill and other intangible assets, minus cash and cash equivalents and short-term investments; multiplied by

(c) one minus the effective tax rate for the twelve-month period.

ROIC is calculated as follows:

	Twelve Months Ended June 30,	
	2015	2014
(a) Return		
Income from continuing operations	\$ 875.0	\$ 793.4
Interest expense	62.0	59.2
Income tax provision	312.6	281.0
Purchase accounting depreciation and amortization	21.5	20.4
Return	<u>1,271.1</u>	<u>1,154.0</u>
(b) Average invested capital		
Short-term debt	222.6	254.5
Long-term debt	1,142.8	905.2
Shareowners' equity	2,614.3	2,550.6
Accumulated amortization of goodwill and intangibles	788.6	773.7
Cash and cash equivalents	(1,325.7)	(1,177.3)
Short-term investments	(609.8)	(434.0)
Average invested capital	<u>2,832.8</u>	<u>2,872.7</u>
(c) Effective tax rate		
Income tax provision	312.6	281.0
Income from continuing operations before income taxes	\$ 1,187.6	\$ 1,074.4
Effective tax rate	<u>26.3 %</u>	<u>26.2 %</u>
(a) / (b) * (1-c) Return On Invested Capital	<u>33.1 %</u>	<u>29.6 %</u>

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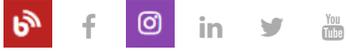
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