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Rockwell Automation Reports First Quarter 2016 Results

January 27, 2016

- Organic sales down 3.3 percent year over year; reported sales down 9.4 percent
- Adjusted EPS of \$1.49; diluted EPS of \$1.40
- Company revises fiscal 2016 Adjusted EPS guidance to \$5.70 to \$6.20 on lower sales

MILWAUKEE--(BUSINESS WIRE)--Jan. 27, 2016-- Rockwell Automation, Inc. (NYSE: ROK) today reported fiscal 2016 first quarter sales of \$1,426.6 million, down 9.4 percent from \$1,574.4 million in the first quarter of fiscal 2015. Organic sales declined 3.3 percent, and currency translation reduced sales by 6.1 percent.

Fiscal 2016 first quarter Adjusted EPS was \$1.49, down 9 percent compared to \$1.64 in the first quarter of fiscal 2015. Total segment operating earnings were \$295.9 million in the first quarter of fiscal 2016, down 15 percent from \$346.8 million in the same period of fiscal 2015. Total segment operating margin was 20.7 percent compared to 22.0 percent a year ago, primarily due to lower sales and unfavorable currency effects.

On a GAAP basis, fiscal 2016 first quarter net income was \$185.5 million or \$1.40 per share, compared to \$214.2 million or \$1.56 per share in the first quarter of fiscal 2015. Pre-tax margin decreased to 16.6 percent in the first quarter of fiscal 2016 from 18.3 percent in the same period last year.

Commenting on the results, Keith D. Nosbusch, chairman and chief executive officer, said, "As expected, we had a weak start to the fiscal year with organic sales down 3 percent due to challenging market conditions in the U.S. and Asia Pacific. Heavy industry end markets continued to soften globally, particularly oil and gas in the U.S. I am pleased with the continued solid growth we are seeing in EMEA and Latin America.

"We were able to hold segment operating margin near 21 percent despite 9 percent lower sales. This demonstrates our ability to execute well in challenging market conditions."

Outlook

Commenting on the outlook, Nosbusch added, "Since providing guidance in November, oil and commodity prices have further deteriorated, and projections for economic growth including industrial production have softened. As a result, we are lowering the mid-point of our organic growth guidance by one point. Taking into account an additional headwind from currency, we are now expecting fiscal 2016 sales of approximately \$5.9 billion and are updating our Adjusted EPS guidance range to \$5.70 to \$6.20.

"We have a proven track record of navigating through challenging market conditions, balancing short-term financial performance with our long-term priorities. We will protect our key investments in innovation, domain expertise and commercial resources, and will continue to expand our served market and gain share. I am very optimistic on our long-term growth prospects, and would like to thank our employees, partners and suppliers for their continued dedication in serving our customers."

Following is a discussion of fiscal 2016 first quarter results for both segments.

Architecture & Software

Architecture & Software quarterly sales were \$642.9 million, a decrease of 9.2 percent compared to \$707.8 million in the same period last year. Organic sales decreased 2.7 percent, and currency translation reduced sales by 6.5 percent. Segment operating earnings were \$176.2 million compared to \$221.4 million in the same period last year. Segment operating margin decreased to 27.4 percent from 31.3 percent a year ago, primarily due to lower sales and unfavorable currency effects.

NYSE:ROK

\$257.15

Change: -12.02 (-4.47%)

Volume: 685,489

December 15, 2022
20 minutes delay

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reduced sales by 5.8 percent. Segment operating earnings were \$119.7 million compared to \$125.4 million in the same period last year. Segment operating margin increased to 15.3 percent from 14.5 percent a year ago despite lower sales, primarily due to productivity.

Other Information

In the first quarter of fiscal 2016 free cash flow was \$145.3 million and cash flow provided by operating activities was \$184.8 million. Return on invested capital was 32.6 percent.

Fiscal 2016 first quarter general corporate-net expense was \$18.0 million compared to \$22.8 million in the first quarter of fiscal 2015.

The Adjusted Effective Tax Rate for the first quarter of fiscal 2016 was 22.8 percent compared to 26.0 percent in the first quarter of fiscal 2015. On a GAAP basis, the effective tax rate in the first quarter of fiscal 2016 was 21.7 percent compared to 25.5 percent a year ago. The Company now expects a full-year Adjusted Effective Tax Rate for fiscal 2016 of approximately 25 percent. Both the quarter and full year rates reflect the benefit of recent tax legislation related to the U.S. research and development credit.

During the first quarter of fiscal 2016, the Company repurchased 1.2 million shares of its common stock at a cost of \$121.8 million. At December 31, 2015, \$323.4 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, January 27, 2016. 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;
- our ability to manage and mitigate the risk related to security vulnerabilities and breaches of our products, solutions and services;
- 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;



- 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. (NYSE: ROK), the world's largest company dedicated to industrial automation and information, makes its customers more productive and the world more sustainable. Headquartered in Milwaukee, Wis., Rockwell Automation employs over 22,000 people serving customers in more than 80 countries.

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

	Three Months Ended December 31,	
	2015	2014
Sales		
Architecture & Software (a)	\$ 642.9	\$ 707.8
Control Products & Solutions (b)	783.7	866.6
Total sales (c)	<u>\$ 1,426.6</u>	<u>\$ 1,574.4</u>
Segment operating earnings		
Architecture & Software (d)	\$ 176.2	\$ 221.4
Control Products & Solutions (e)	119.7	125.4
Total segment operating earnings ¹ (f)	<u>295.9</u>	<u>346.8</u>
Purchase accounting depreciation and amortization	(4.7)	(5.4)
General corporate—net	(18.0)	(22.8)
Non-operating pension costs	(18.9)	(16.2)
Interest expense	(17.4)	(14.9)
Income before income taxes (g)	<u>236.9</u>	<u>287.5</u>
Income tax provision	(51.4)	(73.3)
Net income	<u>\$ 185.5</u>	<u>\$ 214.2</u>
Diluted EPS	<u>\$ 1.40</u>	<u>\$ 1.56</u>
Adjusted EPS ²	<u>\$ 1.49</u>	<u>\$ 1.64</u>
Average diluted shares	<u>132.6</u>	<u>136.9</u>
Segment operating margin		
Architecture & Software (d/a)	27.4 %	31.3 %
Control Products & Solutions (e/b)	15.3 %	14.5 %
Total segment operating margin ¹ (f/c)	20.7 %	22.0 %
Pre-tax margin (g/c)	16.6 %	18.3 %

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)

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Sales	\$	1,426.6	\$	1,574.4
Cost of sales		(813.9)		(886.9)
Gross profit		612.7		687.5
Selling, general and administrative expenses		(359.9)		(386.9)
Other income		1.5		1.8
Interest expense		(17.4)		(14.9)
Income before income taxes		236.9		287.5
Income tax provision		(51.4)		(73.3)
Net income	\$	185.5	\$	214.2

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

	December 31, 2015	September 30, 2015
Assets		
Cash and cash equivalents	\$ 1,449.2	\$ 1,427.3
Short-term investments	770.6	721.9
Receivables	1,015.8	1,041.0
Inventories	562.2	535.6
Property, net	586.3	605.6
Goodwill and intangibles	1,240.9	1,258.3
Other assets	794.7	815.0
Total	<u>\$ 6,419.7</u>	<u>\$ 6,404.7</u>
Liabilities and Shareowners' Equity		
Short-term debt	\$ 161.0	\$ —
Accounts payable	469.6	521.7
Long-term debt	1,492.9	1,500.9
Other liabilities	2,059.7	2,125.3
Shareowners' equity	2,236.5	2,256.8
Total	<u>\$ 6,419.7</u>	<u>\$ 6,404.7</u>

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

	Three Months Ended December 31,	
	2015	2014
Operating activities:		
Income from continuing operations	\$ 185.5	\$ 214.2
Depreciation and amortization	41.3	40.6
Retirement benefits expense	39.2	36.1
Pension contributions	(10.6)	(8.6)
Receivables/inventories/payables	(36.6)	38.5
Advanced payments from customers and deferred revenue	18.1	7.5
Compensation and benefits	(80.6)	(99.2)
Income taxes	11.3	46.9
Other	17.2	(7.8)
Cash provided by operating activities	<u>184.8</u>	<u>268.2</u>
Investing activities:		
Capital expenditures	(40.2)	(40.0)
Acquisition of business, net of cash acquired	—	(21.2)
Purchases of short-term investments	(312.4)	(171.6)
Proceeds from maturities of short-term investments	261.1	175.7
Proceeds from sale of property	0.2	0.1
Cash used for investing activities	<u>(91.3)</u>	<u>(57.0)</u>
Financing activities:		
Net issuance of short-term debt	161.0	183.0
Cash dividends	(95.6)	(88.1)
Purchases of treasury stock	(127.4)	(168.4)
Proceeds from the exercise of stock options	4.0	4.7
Excess income tax benefit from share-based compensation	0.7	4.4

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

Organic Sales

Our press release contains information regarding organic sales, which we define as sales excluding the effect of changes in currency exchange rates and acquisitions. We believe this non-GAAP measure provides useful information to investors 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 months ended December 31, 2015 compared to sales for the three months ended December 31, 2014:

	Three Months Ended December 31,					2014
	2015					
	Sales	Effect of Changes in Currency	Excluding Effect of Changes in Currency	Effect of Acquisitions	Organic Sales	Sales
United States	\$ 787.3	\$ 0.8	\$ 788.1	\$ (0.3)	\$ 787.8	\$ 836.8
Canada	78.7	13.4	92.1	—	92.1	100.0
Europe, Middle East, Africa	274.2	39.9	314.1	—	314.1	296.9
Asia Pacific	173.0	11.8	184.8	—	184.8	207.2
Latin America	113.4	30.2	143.6	—	143.6	133.5
Total	<u>\$ 1,426.6</u>	<u>\$ 96.1</u>	<u>\$ 1,522.7</u>	<u>\$ (0.3)</u>	<u>\$ 1,522.4</u>	<u>\$ 1,574.4</u>

The following is a reconciliation of reported sales to organic sales for our operating segments for the three months ended December 31, 2015 compared to sales for the three months ended December 31, 2014:

	Three Months Ended December 31,					2014
	2015					
	Sales	Effect of Changes in Currency	Excluding Effect of Changes in Currency	Effect of Acquisitions	Organic Sales	Sales
Architecture & Software	\$ 642.9	\$ 45.9	\$ 688.8	\$ —	\$ 688.8	\$ 707.8
Control Products & Solutions	783.7	50.2	833.9	(0.3)	833.6	866.6
Total	<u>\$ 1,426.6</u>	<u>\$ 96.1</u>	<u>\$ 1,522.7</u>	<u>\$ (0.3)</u>	<u>\$ 1,522.4</u>	<u>\$ 1,574.4</u>

ROCKWELL AUTOMATION, INC.
OTHER SUPPLEMENTAL INFORMATION
(in millions, except per share amounts and percentages)

Adjusted Income, Adjusted EPS and Adjusted Effective Tax Rate

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

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The following are the components of operating and non-operating pension costs for the three months ended December 31, 2015 and 2014:

	Three Months Ended December 31,	
	2015	2014
Service cost	\$ 22.1	\$ 21.7
Amortization of prior service credit	(0.7)	(0.7)
Operating pension costs	21.4	21.0
Interest cost	42.5	42.3
Expected return on plan assets	(54.7)	(56.1)
Amortization of net actuarial loss	31.1	30.0
Non-operating pension costs	18.9	16.2
Net periodic pension cost	\$ 40.3	\$ 37.2

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 December 31,	
	2015	2014
Income from continuing operations	\$ 185.5	\$ 214.2
Non-operating pension costs	18.9	16.2
Tax effect of non-operating pension costs	(6.8)	(5.6)
Adjusted Income	\$ 197.6	\$ 224.8
Diluted EPS from continuing operations	\$ 1.40	\$ 1.56
Non-operating pension costs per diluted share	0.14	0.12
Tax effect of non-operating pension costs per diluted share	(0.05)	(0.04)
Adjusted EPS	\$ 1.49	\$ 1.64
Effective tax rate	21.7 %	25.5 %
Tax effect of non-operating pension costs	1.1 %	0.5 %
Adjusted Effective Tax Rate	22.8 %	26.0 %

	Fiscal 2016 Guidance	Year Ended September 30, 2015
	Diluted EPS from continuing operations	\$5.33 - \$5.83
Non-operating pension costs per diluted share	0.58	0.46
Tax effect of non-operating pension costs per diluted share	(0.21)	(0.15)
Adjusted EPS	\$5.70 - \$6.20	\$ 6.40

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 required to maintain the operations of our businesses and execute our strategy. We account for share-based compensation under U.S. GAAP, which requires that we report the excess income tax benefit from share-based compensation as a financing cash flow rather than as an operating cash flow. We have added this benefit back to our calculation of free cash flow in order to generally classify cash flows arising from income taxes as operating cash flows.

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:

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Excess income tax benefit from share-based compensation	4.4	2.2	5.6	0.2	0.7
Free cash flow	<u>\$ 232.6</u>	<u>\$ 269.4</u>	<u>\$ 266.7</u>	<u>\$ 308.5</u>	<u>\$ 145.3</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:

- Income from continuing operations, before interest expense, income tax provision, and purchase accounting depreciation and amortization, for the most recent twelve months; divided by
- 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
- one minus the effective tax rate for the twelve-month period.

ROIC is calculated as follows:

	Twelve Months Ended December 31,	
	2015	2014
(a) Return		
Income from continuing operations	\$ 798.9	\$ 842.9
Interest expense	66.2	59.3
Income tax provision	278.0	306.0
Purchase accounting depreciation and amortization	20.3	22.4
Return	<u>1,163.4</u>	<u>1,230.6</u>
(b) Average invested capital		
Short-term debt	133.8	341.3
Long-term debt	1,379.4	905.4
Shareowners' equity	2,437.0	2,677.4
Accumulated amortization of goodwill and intangibles	797.1	778.6
Cash and cash equivalents	(1,427.7)	(1,228.8)
Short-term investments	(667.7)	(534.8)
Average invested capital	<u>2,651.9</u>	<u>2,939.1</u>
(c) Effective tax rate		
Income tax provision	278.0	306.0
Income from continuing operations before income taxes	\$ 1,076.9	\$ 1,148.9
Effective tax rate	<u>25.8 %</u>	<u>26.6 %</u>
(a) / (b) * (1-c) Return On Invested Capital	<u>32.6 %</u>	<u>30.7 %</u>

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