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Rockwell Automation, Inc. (ROK)

Q3 2025 Earnings Call - Prepared Remarks

## Corporate Participants

Blake Moret, *Chairman & Chief Executive Officer, Rockwell Automation, Inc.*

Christian Rothe, *Senior Vice President & Chief Financial Officer, Rockwell Automation, Inc.*

Aijana Zellner, *Head of Investor Relations & Market Strategy, Rockwell Automation, Inc.*

Operator

Thank you for holding and welcome to Rockwell Automation's Quarterly Conference Call. I need to remind everyone that today's conference call is being recorded. Later in the call, we will open up the lines for questions. If you have a question at that time, please press \*1.

At this time, I would like to turn the call over to Aijana Zellner, Head of Investor Relations and Market Strategy. Mrs. Zellner, please go ahead.

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Aijana Zellner

*Head of Investor Relations & Market Strategy, Rockwell Automation, Inc.*

Thank you, Julianne. Good morning and thank you for joining us for Rockwell Automation's third quarter fiscal 2025 earnings release conference call.

With me today is Blake Moret, our Chairman and CEO, and Christian Rothe, our CFO.

Our results were released earlier this morning, and the press release and charts have been posted to our website. Both the press release and charts include, and our call today will reference, non-GAAP measures. Both the press release and charts include reconciliations of these non-GAAP measures. A webcast of this call will be available on our website, for replay, for the next 30 days. For your convenience, a transcript of our prepared remarks will also be available on our website at the conclusion of today's call.

Before we get started, I need to remind you that our comments will include statements related to the expected future results of our Company and are, therefore, forward-looking statements. Our actual results may differ materially from our projections due to a wide range of risks and uncertainties that are described in our earnings release and detailed in all our SEC filings.

So, with that I'll hand it over to Blake.

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Blake Moret

*Chairman & Chief Executive Officer, Rockwell Automation, Inc.*

Thanks, Aijana, and good morning, everyone. Thank you for joining us today. Before we turn to our third quarter results on slide 3, I'll make a couple of initial comments.

Rockwell had another good quarter, as we returned to year-over-year sales growth. We had a diverse set of strategic wins in the quarter, across Discrete, Hybrid, and Process industry segments. I'll highlight some of these in a few minutes.

We're also making good progress on our journey to the segment margin goals we introduced at our November 2023 Investor Day. This is largely due to very good progress on our enterprise-wide productivity programs, even as more of the year-over-year savings shifts from the initial SG&A reductions to direct material cost and indirect services cost savings and operational efficiencies. We have already achieved our full-year goal of \$250 million in year-over-year productivity, a quarter earlier than we anticipated, and I'm proud of how our organization has operationalized our ambitious productivity and continuous improvement targets. Price-cost also remains favorable, including the net impact from tariffs, which was minimal in the quarter.

Importantly, we intend to take bold steps to continue our progress. Over the next five years we will invest over \$2 billion in plants, digital infrastructure, and talent to grow share, build resilience, and expand margins. The United States will be the largest beneficiary of these investments, which are primarily Capex. These investments will complement our robust productivity programs to drive our global growth and margin expansion goals. We'll go into more detail on the scope and milestones tied to these investments in November, but it will include thoughtful implementation of automation to drive plant efficiency, talent to fuel our highest-return offerings, and an AI-first business system to provide unmatched employee, partner, and customer experiences. This is right in the wheelhouse of our expertise, and we'll be taking you and customers along with us on this journey. It's an exciting time to be a part of the Rockwell Automation story.

Turning to our third quarter results on slide 3. While most customers continue to prioritize their spending on the productivity and efficiency of existing capacity, some are advancing their strategic

plans for larger capex projects, including greenfields. Similar to last quarter, our total company book-to-bill was about 1.0, with year-over-year orders growth in the Americas, EMEA, and Asia. Q3 sales were above our expectations. Reported sales were up 5%, and our organic sales were up over 4% year-over-year, with currency contributing less than a point of growth in the quarter. Similar to last quarter, product sales were better than some of the longer-cycle businesses, which tend to be more capital-intensive. It's likely there were some customer pull-ins in the quarter, and we'll talk more about that in a minute.

Annual Recurring Revenue grew 7% in the quarter, below our expectations. Double-digit growth in our cloud-native software business was offset by relative weakness in recurring services, mainly driven by delays in cybersecurity investments.

From a business-segment standpoint, our Intelligent Devices organic sales were up 1% versus prior year with double-digit growth in products more than offsetting the year-over-year decline in our longer-cycle configured-to-order business. We leveraged our differentiated Intelligent Devices portfolio to secure some new capacity wins, both in greenfield and brownfield applications. One of these wins was with Freshpet, a leading pet food manufacturer who is looking to expand their fresh food production capacity with a new processing plant in Ennis, Texas. Freshpet chose Rockwell for our standardized designs, product interoperability, and a differentiated motor control center offering to help accelerate time to market at this greenfield.

Another strategic MCC win in the quarter was also in the Food & Beverage space, with Incobrasa Industries, a Brazilian soybean processing and biodiesel manufacturing company that is expanding in the United States. Rockwell was selected as Incobrasa's official automation partner for their new state-of-the-art facility in central Illinois. Clearpath sales were up double digits but continue to be affected by Capex delays in Automotive. We're making good progress in integrating the OTTO AMR platform with our overall roadmap for autonomous operations, and to improve profitability even in a period of subdued customer Capex investment.

Software & Control organic sales grew 22% year-over-year, driven by strong growth in our hardware business. Logix sales were up over 30% versus prior year and up low-double-digits sequentially. Our SaaS business grew 10% year-over-year with strategic wins across Plex and FiiX. One of our

important software wins in Q3 was with Beam Therapeutics, a leader in manufacturing of cell and gene therapies. Factory Talk PharmaSuite MES software will help this customer automate their production process and ensure quality control as they continue to expand their commercial operations in this fast-growing vertical.

Another competitive win in the quarter was with Hancock Iron Ore. We are excited to be partnering with HIO as they take the next step in their digital journey. Working closely with our Kalypso team, this customer is adopting our advanced AI-driven predictive maintenance solutions, like Guardian AI and Data Mosaix, to enhance reliability and performance across their operations. This engagement is a testament to the strength of the ongoing relationship and our mutual focus on building the future of mining together through co-innovation.

Lifecycle Services organic sales declined 6% versus prior year but were largely in line with our expectations given the difficult year-over-year comparison. Book-to-bill in this segment was 1.06 and was above 1.0 across all the contributing businesses. As we expected, customers continued to delay larger capital projects in Q3, waiting for more clarity and certainty around the impact of trade and policy on their input cost and volume.

Rockwell segment margin of 21.2% and Adjusted EPS of \$2.82 were both above our expectations, mainly due to higher volume and strong execution on our cost reduction and margin expansion actions. Let's move to slide 4 to review key highlights of our Q3 industry performance.

Our Discrete sales grew 10% versus prior year driven by growth in Automotive and eCommerce and Warehouse Automation. While most of our Automotive customers continue to delay their capital investments, we had a large number of wins in the quarter. One of these brownfield projects in Q3 was to help Hyundai Motor Group expand their hybrid electric vehicle production in Georgia as they transition from EV-only to a multi-energy production model, which addresses evolving consumer demand. Another important Automotive win this quarter was with Lucid Motors, who chose our Factory Talk MES for their state-of-the-art greenfield facility in the Kingdom of Saudi Arabia.

eCommerce and Warehouse Automation sales were up 30% year-over-year with continued strength across all customer segments. In addition to our core automation offering, we are seeing more

interest in autonomous material movement as our customers realize the benefits of our OTTO platform. Whether it is basic station to station movement or handling complex payloads, Rockwell is uniquely positioned to help scale AMR fleets to the operational needs of our customers and integrate with the rest of their automation.

Moving to our Hybrid industries. Sales in this segment increased high-single-digits versus prior year, with good growth across Food & Beverage, Home & Personal Care, and Life Sciences. I already talked about some of our strategic wins in Food and Bev earlier on the call. We continue to see strong year-over-year and sequential growth at our packaging OEMs as they continue to invest in their next-generation machines for both Food & Beverage and HPC end users.

Sales in our Life Sciences vertical were up high-single-digits in Q3. While tariff uncertainty has caused a number of end user project delays, we continue to build a strong pipeline of projects with both machine builders and end users. Our strong software and digital services capabilities continue to differentiate us in the fast-growing GLP-1 space. This quarter, Rockwell was selected by Thermo Fisher to help accelerate production of GLP-1 injectables for a new capacity expansion by cutting their MES implementation timeline in half.

Turning to Process industries, our sales in this segment were down low-single-digits. From a broader Process standpoint, Energy, Chemicals, Mining, and Metals are all facing pressure from weak global demand and volatile commodity prices, which is hampering their ability to invest. With that said, each end market is selectively redirecting capital to their highest strategic priorities, including meeting their sustainability and modernization goals.

In Energy, we do have both the technical portfolio and market access to participate in an “all of the above” strategy to meet accelerating capacity needs, and we had examples of both traditional fossil fuel and renewables wins in the quarter. One of these wins was with a global energy technology company, where our PlantPax process control solution was chosen for their hydroelectric project in India as part of the country’s push for energy security through reliable and renewable electricity. We also secured an important Oil & Gas win with a leading Middle Eastern national oil company, who chose our Sensia Joint Venture for the region’s most strategic automation and cybersecurity upgrade project with significant recurring revenue potential.

Moving to slide 5 and our Q3 organic regional sales. Once again, North America was our best-performing region in the quarter, and we expect it to be our strongest region for the full-fiscal year 2025. Let's now turn to slide 6 to review our fiscal 2025 outlook.

To be sure we continue to operate in a volatile environment, it's good to have the U.S. tax bill in place, continued low unemployment, and to see some progress on tariff negotiations. However, U.S. trade policy with some important countries remains uncertain, and geo-political risk remains elevated. Accordingly, our topline outlook for the second half of this fiscal year is largely unchanged, with a slight increase to our prior guide due to tariff-related price increases and favorable currency. We do see a modest shift forward in the calendarization of our sales between our fiscal third and fourth quarters. Given the continued trade uncertainty, we think some customers have pulled forward orders from Q4 to Q3 in order to mitigate risk and secure critical components.

We now expect our reported and organic sales growth for the year to be in the positive 1% to negative 2% range. The midpoint of our guide assumes low-single-digit sequential sales growth in Q4. We expect our Annual Recurring Revenue to grow high-single-digits this year. We continue to expect our full-year segment margin to be about 20%, and we are increasing our Adjusted EPS outlook to be \$10.00 at the midpoint. We continue to expect Free Cash Flow conversion of 100% in fiscal 25.

I'll now turn it over to Christian to give more detail on our Q3 and financial outlook for fiscal 25. Christian?

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Christian Rothe

*Senior Vice President & Chief Financial Officer, Rockwell Automation, Inc.*

Thank you, Blake, and good morning, everyone. I'll start on slide 7, third quarter key financial information.

Third quarter reported sales were up 5% versus prior year, with minimal impact from currency. About three points of our organic growth came from price. While price/cost was favorable, about



one point of our price realization was from tariff-based pricing, which was neutral to EPS. Benefits from cost reduction and margin expansion actions and price realization more than offset higher compensation.

Adjusted EPS of \$2.82 was above our expectations primarily due to the beat on the sales line as well as segment operating margin. The Adjusted Effective Tax Rate for the third quarter was 15.2%, above the prior year rate of 13.3%, primarily due to lower discrete tax benefits. We continue to expect a 17% ETR for fiscal 2025. Free Cash Flow of \$489 million was \$251 million higher than the prior year. Free Cash Flow conversion was 153% in the third quarter.

Slide 8 provides the sales and margin performance overview of our three operating segments. While sales in Lifecycle Services came in as expected, performance in Intelligent Devices and Software & Control exceeded expectations, with product growth more than offsetting the decline in our configure-to-order business. All segments executed well on our cost reduction and margin expansion targets helping absorb the year-over-year increase in compensation expense. As a reminder, we did not have any incentive compensation costs in the same quarter of last year.

Intelligent Devices margin of 18.8% decreased by 140 basis points year-over-year, against one of their most difficult comps of the prior year, primarily due to the higher compensation expense I just mentioned. Given the small year-over-year dollar change in sales in this segment, decrements are not as meaningful this quarter. We continue to see good price realization in this segment.

Software & Control margin of 31.6% was up 800 basis points versus prior year, driven by double-digit volume growth and strong price realization. This segment saw year-over-year incrementals in the high sixties.

Lifecycle Services margin of 13.3% was down 600 basis points year-over-year. A mid-single-digit sales decline, against record segment margins that had no incentive expense in the prior year, drove the decrements in the quarter.

I want to take a moment to point out the sequential movement we saw in each of our segments. Intelligent Devices had incrementals that were in the thirties from Q2 to Q3, reflecting revenue

improvement, cost reduction and margin expansion execution, and strong price realization, partially offset by tariff costs, compensation, and FX. Software and Control sequential incrementals were in the mid-forties, with strong volume partially offset by higher compensation. Lifecycle Services saw small sequential dollar changes both in sales and segment earnings, with higher compensation being the driver of lower margins. Overall, for Rockwell, the incremental margin on the sequential sales growth was in the low thirties. This rises to the mid-thirties if you exclude tariff-based pricing and cost, which, again, was EPS neutral.

The next slide, 9, provides the Adjusted EPS walk from Q3 fiscal 2024 to Q3 fiscal 2025. Year-over-year, Core conversion was close to 60% and contributed \$0.35 to our EPS on the 4% organic sales increase. Software & Control was the primary driver of both sales and earnings growth in the quarter, where we saw margin expansion on continued improvement in Logix sales. Pricing was strong for the Company, and we continue to fund new product development with company R&D at 6% of total revenue.

We saw excellent execution on our cost reduction and margin expansion actions, which were above our expectations, resulting in a \$0.60 tailwind. You'll see a \$0.60 impact from compensation. Our Q3 outperformance and higher guidance for the year brings with it increased incentive expense. As I said earlier, we had no annual bonus expense last year. We expect about \$0.30 of compensation cost in Q4. Full-year compensation expense, which includes merit and bonus, is expected to be about \$230 million. Currency was a \$0.15 EPS headwind as the timing and movement of exchange rates, particularly in some of our foreign production locations such as Mexico and Poland, created transactional headwinds. All other items resulted in a \$0.09 net headwind.

Moving on to the next slide, 10, to discuss our updated guidance for the full year. We narrowed our sales guidance range this quarter, raising the midpoint of our reported sales guidance to a -0.5% sales decline year-over-year. This reflects a slight increase from our prior organic sales guide, one half of a point, driven by tariff-based price increases in the second half. The other portion of our sales midpoint guidance increase comes from currency, as we now expect the full-year FX impact to be neutral to sales and a \$0.10 headwind to EPS. Our segment operating margin guidance of about 20% is unchanged.

Last quarter we talked about low-single-digit sequential sales growth in Q3 and high-single-digit sequential growth in Q4. With our updated guidance we expect Q4 will be up low-single-digits sequentially after a high-single-digit sequential increase in Q3. Segment operating margins exceeded expectations in Q3. For Q4 we expect margins to be similar to Q3 on slightly higher revenue, with unfavorable mix offsetting the sequential volume leverage.

We are updating our Adjusted EPS guidance to a range of \$9.80 to \$10.20, or \$10.00 at the midpoint. The EPS guidance increase reflects our strong operating performance and continued progress on our cost reduction and margin expansion actions.

A few additional comments on fiscal 2025 guidance for your models. Corporate and Other expense is expected to be around \$155 million. Net interest expense for fiscal 2025 is expected to be about \$140 million and we're assuming average diluted shares outstanding of about 113 million shares. Our share buybacks in Q3 were approximately 500,000 shares in the quarter at a cost of \$123 million. As of June 30, approximately \$1.0 billion remained available under our existing share repurchase authorization.

Moving on, I want to expand on a few topics.

First, let's talk about tariffs and our assessment of possible pull-in activity. We continue to expect the EPS impact of tariffs for fiscal 25 to be mitigated through resiliency actions and price increases. The EPS impact in the third quarter was close to zero, while about 1 point of our sales growth in Q3 was attributable to tariff-based pricing. With regard to pull-ins, as Blake mentioned we are not seeing a notable inflection in underlying customer demand. We have a strong process to identify and address obvious attempts to buy ahead of announced tariff-based price increases and we have cancelled some orders as a result. That being said, we think it's possible that pull-ins accounted for at most 2 to 3 points of our growth in the third quarter. Our thesis for the second half remains intact, and we believe any pull-ins that may have happened were largely just Q3 - Q4 timing differences.

Second, our cost reduction and margin expansion initiative reached a major milestone this past quarter. This program was initiated midway through our last fiscal year with some very ambitious goals. \$100 million of cost savings in the second half of fiscal 2024 and another \$250 million of

savings in fiscal 2025. We exceeded our goal and delivered \$110 million of savings in fiscal 2024. This year, we met our full-year target of \$250 million of savings in only three quarters. All told, that is \$360 million in structural cost savings achieved over five quarters. Our team has performed extremely well for the past year-and-a-half, and we are all grateful for their efforts. Well done.

At our last Investor Day, we shared our Rockwell Operating Model. One objective is to operationalize the excellent work of our cost reduction and margin expansion teams. This bridges the gap to take the program from an event and turn it into a way of life. The team is prepared. Now that we have achieved our targets, we are going to transition the tracking of our cost reduction and margin expansion program into Core in our reporting structure. Because, by operationalizing this work into our day-to-day it is now becoming part of our Core.

Finally, let's talk about the next few years, and the art of the possible, as well as some of the areas where we have developing programs. As Blake shared earlier, we intend to invest \$2 billion over the next five years. This is inclusive of Opex and Capex for plants, digital infrastructure, and talent. To be clear, a portion of this will include brick and mortar. We will share additional information at our Investor Day in November but know that each element of this program will have a clear ROI aimed at enhancing competitiveness, expanding margins, and positioning Rockwell for long-term growth. We believe in the power of industrial automation and digital transformation. That's true for our customers. It's also true for us. This investment reflects our conviction.

With our progress on price, productivity, and strong operating performance, we are on a good path to reach the segment margin targets we introduced in 2023. We are now focusing on long lead-time actions that will help us define and drive the next phase of our operating margin expansion. That's this program. Investing today to help expand margins in the future and to help us achieve the next set of goals.

Some other items for your long-term model. Capex as a percentage of sales, which has historically hovered around 2%, could range between 2.5 to 4% in any given year as we make ROI-based decisions on brick and mortar, digital infrastructure, and capital equipment. R&D spending as a percentage of sales will remain targeted at around 6%. We believe this is important to support our growth engine.

A couple of notes on upcoming tax changes. First, as we have mentioned in the past, we will become subject to BEPS Pillar Two in fiscal 2026. The current framework could cause our effective tax rate to increase two to three percentage points in fiscal 2026, resulting in an EPS headwind. Second, as it relates to the new US tax bill, we don't expect it to provide significant savings to Rockwell, primarily due to our international structure and minimum tax laws. We do believe, however, that accelerated depreciation can drive investment by our small and medium-sized customers. This is a sweet spot for Rockwell, particularly with the help of our partners.

We've delivered three solid quarters so far in fiscal 2025. That doesn't happen without great execution throughout our organization, great customer relationships, and a strong partner network. Those efforts are truly appreciated. Let's have a solid finish to the year.

With that, I'll turn it back to Blake for some closing remarks before we start Q&A.

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Blake Moret

*Chairman & Chief Executive Officer, Rockwell Automation, Inc.*

Thanks, Christian. We're happy to see a return to year-over-year growth, including an improving outlook in some of our largest discrete and hybrid verticals. The leverage from this growth will complement our continued focus on cost discipline, execution, and margin expansion. I'm excited to super-charge these efforts by further capturing the benefits of automation and digital transformation within our own operations.

It's hard to believe, but this year's Automation Fair and Investor Day are only three months away. We return to McCormick Place in Chicago the week of November 17, with Investor Day activities on November 18 and 19. We're looking forward to showcasing the best solutions and partner network in the business, including software-defined automation and AI-enabled technology from sensor to software, integrated intelligent devices, robotics, and digital services. You will hear from customers about our differentiated value, and from management as we review progress on our goals, details of our internal investments, and inorganic priorities. I'm looking forward to seeing you there.

Aijana will now begin the Q&A session.

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Aijana Zellner

*Head of Investor Relations & Market Strategy, Rockwell Automation, Inc.*

Thanks, Blake. We would like to get to as many of you as possible, so please limit yourself to one question and a quick follow up. Julianne, let's take our first question.

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Q&A Session

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Aijana Zellner

*Head of Investor Relations & Market Strategy, Rockwell Automation, Inc.*

That concludes today's conference call. Thank you for joining us today.