

Rockwell Automation Inc. Ticker: ROK Sector: Industrials Industry: Electrical Equipment	Intrinsic Value: \$ 135 Current Price: \$117.90 Stop Loss: \$ 95 Upside Review: \$ 130	TTM P/E: 19 Forward P/E: 17.46 Beta: 1.25	Market Cap: \$ 15.62 billion Dividend Yield: 2.25% 52 Week Range: \$ 98.55 - 128.57
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Business Summary: Rockwell Automation, Inc. is a global provider of industrial automation power, control, and information solutions. While the company competes with giants like General Electric, Siemens, and Honeywell, Rockwell is the largest company purely concentrated on automation and controls. This focus has allowed it to out-innovate its bigger, more diversified competitors, driving value for its customers, and, in turn, its employees, its shareholders, and the environment.

Industry Trends: The Industrial Automation market has grown 6% p.a. since 2003, roughly ~1.7x global industrial production. The efficacy of discrete automation is becoming increasingly apparent, yet penetration remains low in many markets; offering scope for increased penetration to drive growth. Geographic estimates: rising discrete automation penetration in China is offsetting robot 'saturation' in Japan. In the DCS, petrochemical capacity additions are driving growth in the Americas and Asia Pacific.

Investment Thesis: As the largest pure play in the automation and controls segment, Rockwell benefits from meaningful switching costs as well as an ability to invest cash flow back into the enterprise without supporting other corporate growth initiatives. Setting Rockwell apart from the pack is the firm's deep domain knowledge, which starts with concentrating on its customers' industries. Rockwell's open source architecture is distinct in the industry and allows applications to sit on top of competitors' and allow a customer to make incremental upgrades to its factory automation software, as opposed to doing an extensive overhaul.

Competitive Analysis:

- **One integrated business – three market leading core platforms**
 - Integrated Architecture
 - Intelligent Motor Control
 - Solutions and Services
- **Sustainable competitive differentiation**
 - Technical innovation
 - Domain expertise
 - Best-in-class partnering
- **Broad market coverage**
 - Discrete and process control for all industries
 - End user and OEM value
- **Expanding growth opportunities from Integrated Control & Information**
 - Smart products
 - Secure network infrastructure and services
 - Information to optimize processes
 - Efficient lifecycle support

Risk Factors:

- Strong US dollar.
- Uncertainty around the impact and duration of lower oil prices.

5 Year Stock Performance: (Yahoo!)



Total Return Estimates

3 Yr FV Reversion: 8%
5 Yr FV Reversion: 5%

Key Valuation Assumptions

Est Revenue Growth: 8%
WACC: 8.18%
Expected Inflation: 1.7%
Terminal Growth Rate: 3%
10 Yr Risk Free Rate: 1.68%
Equity Risk Premium: 5.5%
Tax Rate: 27.00%

Competitor Comparison:

Direct Competitor Comparison					
	ROK	ABB	EMR	SI	Industry
Market Cap:	15.48B	46.33B	39.70B	N/A	1.44B
Employees:	22,500	145,000	115,100	N/A	1.85K
Ctry Rev Growth (yoy):	-0.01	-0.07	-0.00	N/A	0.14
Revenue (ttm):	6.61B	40.86B	24.52B	N/A	1.25B
Gross Margin (ttm):	0.42	0.28	0.42	N/A	0.31
EBITDA (ttm):	1.35B	4.78B	5.00B	N/A	132.34M
Operating Margin (ttm):	0.18	0.09	0.17	N/A	0.08
Net Income (ttm):	941.80M	2.45B	2.21B	N/A	N/A
EPS (ttm):	6.06	1.06	3.03	N/A	0.85
P/E (ttm):	18.65	19.17	18.86	N/A	22.95
PEG (5 yr expected):	1.88	1.39	1.80	N/A	1.42
P/S (ttm):	2.32	1.11	1.62	N/A	1.23

ABB = ABB Ltd.
EMR = Emerson Electric Co.
SI =
Industry = Diversified Machinery

Information from: Bloomberg, Value Line, S&P Net Advantage, Yahoo

Key Financial Data

Est 2015 EPS: \$6.60
Est 2016 EPS: \$7.14
3-5 Yr Est EPS Growth: 8%
PEG (TTM): 1.86
Credit Quality: A3 (Moody's)
ROE: 32%
ROA: 13.9%
Price/Book: 6.08
Price/Cash Flow: 15.62
Debt/Equity: 0.46

CSR Characteristics (This Stock/Industry)

Human Rights: 0/0 Business Ethics Policy: 1/1
ESG Disclosure: 39.67/24.1 Equal Opportunity: 1/1
Emission Reduction: 1/1 Environment Disclosure: 28.68/32.82

Prepared by Ming Dai (Feb 12, 2015)