Rockwell Automation

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Rockwell Automation, Inc. (ROK)

Q1 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. Ms. Zellner, please go ahead.

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 first 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.

Blake Moret

Chairman & Chief Executive Officer, Rockwell Automation, Inc.

Thanks, Aijana, and good morning, everyone. Thank you for joining us today. I'll make a couple of general comments before we turn to our first quarter results.

I'm pleased with the early benefits of our renewed focus on operational excellence and cost discipline, as we create a solid foundation for market-beating growth and performance. Continuing benefits from cost reductions in SG&A we took last year will be joined with benefits from reduced costs of direct and indirect purchases, manufacturing efficiency, and additional price actions. Overall, our plan to achieve $250 million worth of productivity benefits versus last year is intact, despite additional temporary headwinds such as the negative impact of currency.

Additionally, we are confident that we are dealing with the recently announced tariffs in a way that mitigates the impact and maximizes our position as a large US manufacturer. We've been working on various scenarios since before the election. Undoubtedly, there will be near-term disruptions and volatility in the global supply chain, both for us and our customers, but we continue to believe Rockwell is a net beneficiary of policies that increase US manufacturing. Christian will cover some of the actions we are taking later in his section.

In terms of demand, we are encouraged by better-than-expected order performance in the quarter. We had mid-single-digit sequential growth overall, with sequential growth across all regions and business segments. Orders exceeded shipments in the quarter, giving us some additional backlog for the balance of the year. While there is still macroeconomic and policy uncertainty weighing on customer's CapEx plans, Rockwell won multi-million-dollar strategic orders across multiple key industries in the quarter, especially in the U.S., our home market.

Let's now turn to our Q1 results on slide 3. Our Q1 orders grew 10% versus prior year and, as I said, were up mid-single digits sequentially. We saw particularly strong orders for Logix controllers and I/O. We believe our order outperformance reflects true underlying demand, based on the broad geographic outperformance, balanced mix of hardware, software, and solutions orders, and the fact that distributor and machine builder inventories continue to reduce.

As customers are waiting for more certainty in the macroeconomic and U.S. policy environment, they are balancing their automation spend between increasing operational efficiency and making longer-term capital investments. Our Q1 order outperformance includes a number of large customer projects that are slated to convert to sales over the coming quarters.

Our Q1 reported sales declined about 8.5% year-over-year with slightly better-than-expected organic sales being offset by about a point of headwind from negative currency translation. Remember, our sales in the first half of fiscal '24 were still supported by a sizeable product backlog, creating a difficult year-over-year comparison for us in fiscal '25. We expect to return to year-over-year sales growth in the back half of the year.

Organic sales in our Intelligent Devices segment were down 12% versus prior year and in line with our expectations. Both Cubic and Clearpath, our recent acquisitions in this segment, saw double-digit year-over-year growth in sales. We continue to grow our pipeline of multi-year projects here with significant wins across our key industries and global customers. I'll touch on some of these wins in a few minutes.

Software & Control organic sales declined about 12% year-over-year but were above our expectations. Logix exceeded our expectations this quarter, with both orders and sales up double digits versus prior quarter. Logix orders have recovered sequentially during the last six months.

Some of our newer offerings we talked about at our Investor Day in November continue to set us apart and help get new customers. One of these competitive wins in the quarter was with Convergix Automation Solutions, a leading global machine builder, who is partnering with Rockwell to help a German end user build their first U.S. greenfield plant. The customer chose our cloud-enabled Optix platform for its hardware-agnostic nature and its ability to seamlessly extract and aggregate data from various devices on a plant floor, significantly reducing the time, risk, and cost to integrate solutions from multiple vendors.

Lifecycle Services organic sales were up 5% year-over-year. Book-to-bill in this segment was 1.05 led by strong orders in our solutions business and tied to some of the larger multi-year project wins I

mentioned earlier. We also saw good growth in recurring services, with strategic wins across Automotive, Tire, and Food & Beverage.

Total ARR for the company grew 11% in the quarter led by strong growth in our software offerings. One of our notable wins here this quarter was with Miraka, whose dairy factory is powered by renewable geothermal energy and has one of the lowest manufacturing carbon footprints in the industry. Our cloud-native Plex software was chosen to help Miraka enhance their product traceability, improve quality, and reduce cost.

Segment margin was over 17% in the quarter, and Adjusted EPS was $1.83; both well above our expectations as we continue to execute on our cost-out and longer-term margin expansion projects. As we reiterated at our Investor Day a few months ago, we are committed to delivering $250 million in year-over-year benefits from these actions in fiscal '25. In addition to this structural productivity, we are deploying temporary cost measures to help mitigate the unfavorable currency impact on our earnings. Christian will cover this in more detail later.

Turning to slide 4 to review key highlights of our Q1 industry segment performance. Consistent with our overall sales results in the quarter, our performance by industry reflects difficult year-over-year comparisons with Q1 of last year still benefitting from a large product backlog.

Our Discrete sales were down mid-single digits year over year with declines in Auto and Semi partially offset by strong growth in eCommerce and Warehouse Automation. Within Discrete, Automotive and Semiconductor sales continued to be impacted by delays as customers focus on driving operational efficiencies and profitability amidst increasing uncertainty from trade and policy changes in the upcoming months.

eCommerce and Warehouse Automation sales grew over 30% versus prior year and were above our expectations. We saw a significant uptick of customer activity this quarter, especially in North America and Europe. Our strong position with leading machine builders and system integrators in this space is helping us gain additional share of wallet with key end users, both in the traditional eCommerce space and global logistics sector, with a common theme of facility modernization and optimization. Recent new product introductions have also enhanced our competitiveness in this

vertical. Given the acceleration in customer investments, we now expect eCommerce and Warehouse Automation to grow high-single digits year-over-year in fiscal '25.

Moving to Hybrid, sales in this industry segment were slightly above our expectations, led by better performance in Food & Beverage and Home & Personal Care verticals. In Food & Beverage, our customers continue to prioritize spend on digital services and modernization programs over large capacity investments. We expect modest improvement in this vertical as we go through the year.

In Life Sciences, we saw a number of strategic wins in the quarter, showcasing the breadth and differentiation of our offerings to serve this market. In addition to follow-on orders for GLP-1 related investments, we secured a large competitive win with our Factory Talk MES software, helping one of the largest European life sciences companies standardize their global facilities on our platform to increase tech transfer speed and reduce cost. Another important win this quarter was with Thermo Fisher. Our OTTO autonomous mobile robots were selected to help address Thermo's workforce challenges by optimizing their warehouses through OTTO's AI-enabled path determination and movement flexibility and freeing up labor to focus on more value-adding tasks.

Turning to Process industries. Sales in these verticals were down high-single digits year-over-year on difficult prior year comps, especially within our Energy market, where Oil & Gas grew over 25% in Q1 of last year. While the new administration's support for more oil production in North America should benefit our customers in the long run, we see a mixed reaction from our energy customers near-term as they continue to prioritize capital discipline and operational efficiency over adding more production in the U.S. This quarter, Rockwell and EPIC Industrial, a leading EPC company in the energy and chemicals space, were chosen by one of the world's largest Oil and Gas producers to help achieve this end user's goal of net-zero emissions by 2050.

Another important Process win was in our Mining vertical. Vale selected Rockwell to help increase production and reduce water consumption at their new processing plant in Brazil. Our winning combination of integrated hardware, software, and services is the reason Vale chose Rockwell as their single partner to integrate end-to-end solutions for this greenfield.

Let's turn to slide 5 and our Q1 organic regional sales. As you can see, the Americas continued to outperform other regions for us this quarter. EMEA sales were down 14%. We continue to see weakness across most of the region, particularly in Germany and France, with some early signs of stabilization at Italian machine builders. Asia Pacific sales declined 9% led by a double-digit year-over-year decline in China. While the automation market in the region is expected to stabilize later in 2025, we expect Asia Pacific to be our weakest region in fiscal '25.

Let's now move to slide 6 to review our fiscal 2025 outlook. We continue to expect a gradual sequential sales improvement as we move through this fiscal year. We are keeping our organic sales growth range of positive 2% to negative 4%, but we are updating our reported sales midpoint to $8.1 billion, reflecting 1.5 points of negative contribution from currency translation. Christian will cover FX and the calendarization of our guidance in more detail later on the call.

Annual Recurring Revenue is projected to grow about 10% this year. As I mentioned earlier, we are taking additional cost measures to offset the negative impact of currency headwinds on our bottom line, which means we continue to expect segment margin in the 19% range and are reaffirming our Adjusted EPS of $9.20 at the midpoint. We expect Free Cash Flow conversion of 100% in FY25.

I'll now turn it over to Christian to provide more detail on our Q1 and financial outlook for fiscal '25. Christian?

Christian Rothe

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

Thank you, Blake, and good morning, everyone.

I'll start on slide 7, First Quarter Key Financial Information. First quarter reported sales were down about 8.5% versus prior year. The impact of acquisitions was negligible, and currency had a negative impact of 90 basis points in the quarter. About 1 point of our organic growth came from price and price / cost was favorable.

Segment operating margin was 17.1% compared to 17.3% a year ago, with lower sales volume mostly offset by the benefits from cost reduction and margin expansion actions Blake mentioned earlier.

Adjusted EPS of $1.83 was above our expectations primarily due to the beat on segment operating margins. We will get into it more when we discuss the EPS bridge and the cost reduction actions, but I would like to take a moment to commend the team for outstanding performance in the first quarter. It was about strong execution and good cost controls.

The Adjusted Effective Tax Rate for the first quarter was 17.5%, below the prior year rate of 17.9%. We remain on-track to achieve a 17% ETR for fiscal 2025. Free Cash Flow of $293 million was $328 million higher than prior year. Free cash flow conversion was 140% in the first quarter of this year, reflective of continued working capital management by the team as well as zero incentive payouts on fiscal 2024 performance. This is in contrast to the first quarter of last year, where we had our cash bonus payout for 2023 performance.

Two additional items not shown on the slide. We repurchased approximately 400,000 shares in the quarter at a cost of $99 million. On December 31, we had approximately $1.2 billion remaining under our repurchase authorizations. Return on Invested Capital was 14.5% for the first quarter of fiscal 2025 and 400 basis points lower than the prior year, primarily driven by lower pre-tax income.

Slide 8 provides the sales and margin performance overview of our three operating segments.

Intelligent Devices margin of 14.9% decreased by 130 basis points year-over-year. Purely focusing on decremental conversion, the segment had decrementals in the twenties year-over-year in the first quarter, which reflects strong execution on cost-out programs against a double-digit organic sales decline.

Software & Control margin of 25.1% was flat with the prior year. This segment typically has very high decrementals, but strong execution on our cost-out program and good price-cost performance kept our year-over-year decremental margins in the twenties, performing above our expectations. It’s important to note that R&D spend in this segment was in the low teens as a percent of sales,

reflecting our continued focus on new product introductions and long-term growth and differentiation.

Lifecycle Services margin of 12.5% increased 190 basis points year-over-year and was slightly below our expectations, mostly driven by the timing of Sensia shipments. Incrementals were solid year-over-year, reflecting the low-single-digit volume growth and strong execution on our cost-out programs.

Before moving on to EPS, let's expand a little on orders and demand. As Blake mentioned, orders came in better than expected, surpassing $2 billion in the first quarter, and book-to-bill was greater than one, which hasn't been the case for the last seven quarters. This is a good sign, but didn't materially change the calendarization of our outlook. The outperformance was largely from project orders scheduled to ship later in the year.

Another favorable data point, in the first quarter, new demand placed on our distributors is flowing through at close to 100% in terms of new orders on Rockwell, matching historical levels, giving further evidence that the destocking cycle is mostly behind us.

The next slide, 9, provides the Adjusted EPS walk from Q1 fiscal 2024 to Q1 fiscal 2025.

Core performance was down $0.55 on an 8% organic sales decrease. Those sales declines were primarily in our higher margin products in both Intelligent Devices and Software & Control, which impacts flow-through. Importantly, the organization took some temporary cost measures in Q1, which helped keep the core decremental flow through on the high-single-digit sales decline to this level.

Cost reduction and margin expansion actions, which reflect more structural productivity, provided about $70 million of benefit in the quarter, slightly above our expectations, and were a $0.50 tailwind. Compensation, which reflects merit and incentive compensation, was a $0.20 headwind. This year-over-year delta reflects merit increases that came into effect at the beginning of the fiscal year as well as higher incentive comp versus prior year. Recall that our full-year 2025 guide was for compensation and inflation to be about a $190 million headwind compared to fiscal 2025, with $160

million of that coming from compensation. The inflation impact is captured inside of Core in this bridge. We expect compensation to be about $0.90 of headwind for the remaining three quarters of the year, spread about equally. All other items resulted in a $0.04 net benefit.

Moving on to the next slide, 10, to discuss our updated guidance for the full-year fiscal 2025.

Our thesis for the year remains largely intact, with a couple of changes. We expect organic sales in a range from negative 4% to positive 2%. While our initial guide for reported revenue for fiscal 2025 did not anticipate any significant impact from currency, the recent strengthening of the dollar requires a modification in our guide. At current rates, we expect the currency headwind to be about 1.5 points, which takes our guidance on reported sales down to slightly below $8.1 billion at the midpoint. We expect price to contribute about a point of growth for the year. This excludes any tariff-related price actions.

At the midpoint of our reported sales guidance, which is now negative 2.5%, our current expectations are for Intelligent Devices sales to be down mid-single digits, and Software & Control and Lifecycle Services to be approximately flat year-over-year.

From a margin standpoint, we expect ITD margin to be down year-over-year on lower sales, Software & Control margins to expand year-over-year on flat sales, and we expect Lifecycle Services margin to be flat to down slightly down year-over-year. Our Adjusted EPS guidance range is unchanged at $8.60 to $9.80, with a $9.20 midpoint.

Let's talk about calendarization. The dollar's strengthening late in the first quarter has continued into the second quarter and is a sequential headwind of less than 1%. Our expectation is for reported sales to grow low-to-mid single digits sequentially from Q1 to Q2. After Q2 we are expecting gradual sequential sales growth through the remainder of the year.

On a year-over-year basis, the 1.5 points of sales headwind from FX is expected to result in a $0.35 headwind on EPS, which is split evenly through the remaining three quarters of the year. As Blake said earlier, we are taking additional temporary measures on spending to offset this impact. The

team performed well in spending control in the first quarter, and we are going to hold those reins tight so we can continue to drive toward that Adjusted EPS midpoint of $9.20.
Specific to Q2, we expect segment operating margins to expand about 100 basis points sequentially on the incremental sales volume. Resulting EPS off those sales and margin expectations would be in the neighborhood of $2 per share.

A few additional comments on fiscal 2025 guidance for your models. Corporate and Other expense is expected to be around $145 million. Net interest expense for fiscal 2025 is expected to be about $140 million. We're assuming average diluted shares outstanding of 113.4 million shares with about $300 million of share repurchases targeted during the year.

Moving away from the slides, I'd like to expand on a couple of topics. First, focusing on cost reduction and margin expansion activities, which gave us a benefit of approximately $0.50 of EPS in the first quarter. For the full year, we continue to expect a benefit of $250 million or about $1.85 per share.

As discussed at our Investor Day in November, there are hundreds of projects supporting these initiatives, and while each one individually may only be a couple of basis points or 10 basis points of yield, when put together and annualized they are giving us a yield in the hundreds of basis points. The timing and magnitude continues to fluctuate as we execute against these plans. The first quarter was a good one and we tracked slightly ahead of our goal for the quarter. The primary driver of the outperformance was manufacturing efficiencies and effective sourcing. There is a lot of year left in front of us and great deal of work to be done, but I would like to thank the team for their efforts. Nice work.

While you may see this initiative as cost-out, because that is what we are tracking and reporting to our investors, it's important to note that the ultimate goal of productivity is to drive revenue through competitiveness and speed. These actions are setting us up for long-term growth of both sales and earnings. To that end, I want to follow-up on some other operational excellence topics from our Investor Day.

The Rockwell Operating Model continues to develop as we build a foundation to sustain our cost-out initiatives as well as drive margin-expansion for the long-term. During the first quarter we had another 1,300 Rockwell employees complete yellow belt training. In addition, we rationalized over 21,000 SKUs as we seek to simplify our operations and improve customer experience. Our product resiliency index continues to improve as we steadily reduce single points of failure in our operations. While those initial efforts arose from the supply chain crisis, as we enter into an era of changing tariffs and trade, this resiliency enables us to respond to dynamic conditions.

Moving on, I would like to go into some depth around the potential tariff impact to our business, including our short-term actions as well as longer-term thoughts. As Blake mentioned earlier, the Rockwell team has taken initial steps in response to new tariffs. We had planned for a number of scenarios and remain ready to adapt quickly. Our priorities are a combination of maintaining profitability and utilizing resiliency in our operations and supply chain to mitigate impacts under a variety of scenarios.

I want to size our exposure so you have context. Costs of finished goods imported from Mexico, Canada, and China, in total, were less than 10% of our U.S. revenue in fiscal 2024. Separately, in fiscal 2024, our direct imports into the United States from Mexico – both from third parties as well as from our own manufacturing facilities – were approximately $350 million. Imports from Canada and China were each approximately $100 million.

Our tariff mitigation plan is multi-faceted. For the near-term, this will be primarily through price, and we have implemented price changes from the additional China tariffs that were enacted on February 4th. We have made and will continue to make changes to manufacturing locations when there's an attractive ROI. Canada and Mexico tariffs, whether they happen in March or sometime in the future, will impact both standard products as well as a portion of our configure to order sales. We will enact price increases on impacted products and also intend to reprice our backlog to reflect our new price lists.

These actions are disruptive for our customers, of course, and there will likely be some noise in the near-term. We are working hard to minimize that disruption and ensure continued levels of customer

service. With that said, due to our immediate actions and substantial U.S. manufacturing footprint, we do not expect these tariffs to have material impact on our profitability for the full year.

Beyond pricing, we have a number of projects that are in-flight to mitigate tariff costs through alternative sourcing and movement of production locations. We will be leveraging the resiliency that has been built into our operations and supply chain, including moving some production in response to tariffs. For example, we have some products that are produced in Mexico and destined for the U.S., but similar production that occurs in the U.S. where the destination is outside the United States. We are swapping those out, moving the production for non-U.S. customers outside the U.S. in order to create capacity to manufacture production for U.S. customers inside the US. It's a small portion of our overall tariff-impacted operations, but a good example of quick moves we can make.

As Blake mentioned at our Investor Day, our operations team has done a good job of keeping infrastructure in place for 2nd shift, sometimes 3rd shift in locations that have been challenged with lower volume in the past 12 months. That creates an opportunity to move production into the U.S. to avoid tariffs, with a limited time lag. As you know, we are in a very dynamic environment, so we will continue to leverage our agile supply chain and take additional steps, as necessary.

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

Blake Moret

Chairman & Chief Executive Officer, Rockwell Automation, Inc.

Thanks, Christian. As I mentioned, we're seeing some encouraging new project activity across multiple end markets. Many of these involve U.S. user sites, but they involve multiple points of influence around the world, and we're doing a good job of coordinating this global effort. We expect the impact of so-called mega-projects to be meaningful in the next few years.

We continue to track new legislation and executive orders as they are announced. With our large U.S. manufacturing footprint and strong market position, we're confident that we can respond quickly to these changes. I'm pleased with the progress our teams are making toward our long-term productivity and margin expansion targets, and I'm confident we are making the right investments to

drive sustained growth and profitability. The framework for superior growth and performance through the cycle that we outlined over a year ago is intact, and we are working that plan.

I am also taking a moment to thank our employees and partners for their dedication and hard work. I'm proud to have such a strong team to help us navigate through this dynamic period. Nobody is better positioned than Rockwell and our partners to help American manufacturers create the future of industrial operations.

Aijana will now begin the Q&A session.

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.

Q&A Session

Aijana Zellner

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

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