

Rockwell

1QF24: Waiting on cyclical visibility and better execution

Reiterate Rating: NEUTRAL | PO: 280.00 USD | Price: 253.28 USD

Investors are questioning the cycle....

ROK reported 1QF earnings that missed our estimates and the Street. The key feedback we are getting from investors is little conviction on orders and revenue reacceleration in 2H24. Our work indicates ROK has a better relationship with manufacturing capex than industrial production. This gives us more confidence that the company has not pulled forward demand in 2022/2023. We model a reacceleration in growth and orders in 2H24, in line with management commentary. Our margin work indicates that either the 2Q framework for margins is very conservative, or volume estimates need to come down further. While we believe in the capex cycle, our concern is execution given a series of missteps over the past few years. Neutral. We lower our Price Objective from \$320 to \$280, reflecting 15x 2025E EV/EBITDA (17x prior), in line with the peer group. We believe shares down 18% (vs. S&P down 2%) reflects positioning, with fundamentals better than the stock move but limited catalysts into 2QF24 as we wait for 2H24 to see performance improve.

...our question is, can ROK grow profitably?

While we believe in the capex cycle, our concern is execution given a series of missteps over the past few years. A key question we have is whether ROK can deliver high incrementals in a faster capex environment. Over the past 25 years, ROK has delivered double-digit growth in 6 years – 2005/2006, 2010/2011, and 2022/2023. In these periods, ROK was able to deliver ~41% incrementals on average. It appears ROK is confident it can deliver similar incrementals into 2H24 or better as volumes return & mix headwinds (100-150bp y/y impact to Intelligent Devices in 1H24) dissipate.

Intelligent Devices “drives” the miss

The key downside driver is Intelligent Devices (drives; motor control) on revenue & margins, impacted by mix and volume deleverage. NA led growth (+4.2% y/y). NA strength in the face of international (largely China) weakness has been consistent this Q.

Maintaining our estimates; more backend loaded

We maintain our \$13.38 adj. EPS estimate. We forecast 67% of earnings in 2H24. This compares to 56% of earnings in 2H for FY23 and 60% in FY22. We see 1) the end of destock driving better growth, 2) dissipating mix headwinds, 3) better incrementals as volumes return. ROK did not right-size investment spend for the lower volume in 1Q.

Estimates (Sep) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	9.50	12.15	13.38	14.67	16.03
GAAP EPS	7.97	11.98	12.88	13.58	14.94
EPS Change (YoY)	0.7%	27.9%	10.1%	9.6%	9.3%
Consensus EPS (Bloomberg)			12.87	14.01	15.07
DPS	4.48	4.72	5.00	5.24	5.48
Valuation (Sep)					
P/E	26.7x	20.8x	18.9x	17.3x	15.8x
GAAP P/E	31.8x	21.1x	19.7x	18.7x	17.0x
Dividend Yield	1.8%	1.9%	2.0%	2.1%	2.2%
EV / EBITDA*	21.1x	18.6x	16.1x	14.7x	13.6x
Free Cash Flow Yield*	2.4%	3.9%	4.8%	5.6%	6.1%

* For full definitions of *IQmethod*SM measures, see page 13.

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Timestamp: 01 February 2024 05:00AM EST

01 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	320.00	280.00
2024E Rev (m)	9,613.7	9,635.4
2025E Rev (m)	10,112.4	10,138.1
2026E Rev (m)	10,704.7	10,730.6
2024E DPS	4.72	5.00

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Stock Data

Price	253.28 USD
Price Objective	280.00 USD
Date Established	31-Jan-2024
Investment Opinion	B-2-7
52-Week Range	252.11 USD - 348.52 USD
Mrkt Val (mn) / Shares Out (mn)	30,774 USD / 121.5
Free Float	99.8%
Average Daily Value (mn)	144.97 USD
BofA Ticker / Exchange	ROK / NYS
Bloomberg / Reuters	ROK US / ROK.N
ROE (2024E)	37.5%
Net Dbt to Eqty (Sep-2023A)	48.1%
ESGMeter™	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BofA ESGMeter Methodology".

iQprofileSM Rockwell

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	14.7%	17.4%	19.7%	19.5%	18.9%
Return on Equity	38.9%	41.6%	37.5%	33.7%	30.1%
Operating Margin	18.4%	18.9%	20.2%	21.1%	21.7%
Free Cash Flow	751	1,214	1,463	1,715	1,876

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	0.8x	1.0x	1.1x	1.1x	1.1x
Asset Replacement Ratio	0.6x	1.2x	1.3x	1.0x	0.8x
Tax Rate	15.8%	18.4%	17.0%	17.5%	17.5%
Net Debt-to-Equity Ratio	110.9%	48.1%	26.5%	1.2%	-17.6%
Interest Cover	12.0x	13.5x	16.4x	18.3x	20.3x

Income Statement Data (Sep)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	7,760	9,058	9,635	10,138	10,731
% Change	10.9%	16.7%	6.4%	5.2%	5.8%
Gross Profit	3,102	3,717	3,932	4,148	4,401
% Change	7.1%	19.8%	5.8%	5.5%	6.1%
EBITDA	1,573	1,785	2,061	2,250	2,434
% Change	11.9%	13.5%	15.5%	9.1%	8.2%
Net Interest & Other Income	(119)	(127)	(119)	(117)	(115)
Net Income (Adjusted)	1,111	1,406	1,540	1,689	1,846
% Change	0.4%	26.6%	9.6%	9.7%	9.3%

Free Cash Flow Data (Sep)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	1,111	1,406	1,540	1,689	1,846
Depreciation & Amortization	239	250	244	238	232
Change in Working Capital	(530)	(120)	(306)	(171)	(196)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	72	(161)	149	81	91
Capital Expenditure	(141)	(161)	(164)	(122)	(97)
Free Cash Flow	751	1,214	1,463	1,715	1,876
% Change	-34.2%	61.7%	20.5%	17.2%	9.4%
Share / Issue Repurchase	(243)	(312)	(333)	8	3
Cost of Dividends Paid	(519)	(454)	(575)	(602)	(630)
Change in Debt	(150)	(876)	0	0	0

Balance Sheet Data (Sep)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	491	1,072	1,687	2,807	4,056
Trade Receivables	1,737	2,167	2,306	2,426	2,568
Other Current Assets	1,383	1,672	1,423	1,462	1,511
Property, Plant & Equipment	587	684	718	714	688
Other Non-Current Assets	6,562	5,709	5,457	5,384	5,319
Total Assets	10,759	11,304	11,591	12,793	14,142
Short-Term Debt	968	9	0	0	0
Other Current Liabilities	2,604	3,357	3,087	3,237	3,416
Long-Term Debt	2,868	2,863	2,871	2,871	2,871
Other Non-Current Liabilities	1,302	1,332	1,162	1,146	1,121
Total Liabilities	7,742	7,561	7,120	7,254	7,408
Total Equity	3,017	3,743	4,472	5,538	6,734
Total Equity & Liabilities	10,759	11,304	11,591	12,793	14,142

* For full definitions of iQmethodSM measures, see page 13.

Company Sector

Industrials/Multi-Industry

Company Description

Rockwell Automation is a global supplier of industrial automation equipment, software, and services and is divided into two segments. The Architecture & Software segment contains integrated control and information architecture that allows the customer to connect its manufacturing enterprise. The Control Products & Solutions segment includes intelligent motor control and industrial control products that allow the customer to implement an automation or information solution on the plant floor.

Investment Rationale

We view ROK as a beneficiary from reshoring of US manufacturing. ROK has a strong position in the US and international automation markets. However, we lack visibility on the ability to navigate supply chain pressures.

Stock Data

Average Daily Volume 572,369

Quarterly Earnings Estimates

	2023	2024
Q1	2.46A	2.04E
Q2	3.01A	2.41E
Q3	3.01A	3.97E
Q4	3.64A	4.96E

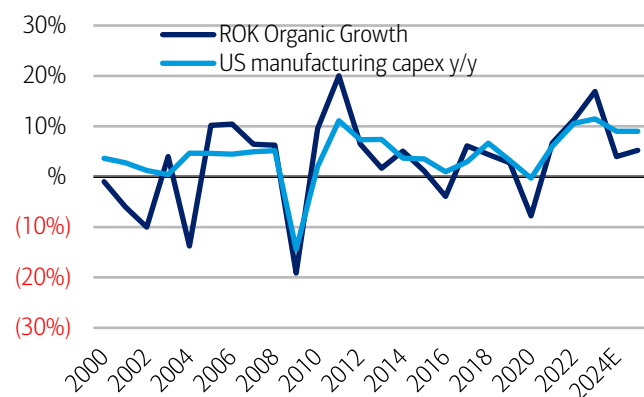
ROK topline driven by capex – and we think cycle is intact

Historically the framework for ROK organic growth was to grow 2x US Industrial Production. Investors have argued that ROK pulled forward demand in 2022/2023 and that, given flattish IP over the next 2 years, ROK growth will be lackluster.

Our work indicates that ROK grows more in line with capex than industrial production. Given where we are in the capex cycle (we forecast 9% y/y in 2024 following 11% growth in 2022/2023), we think this supports robust ROK momentum following the end of destock. Given the relationship with manufacturing capex over time, we would argue that the cycle is intact. While we forecast ROK growing faster than Industrial Production, we forecast is undergrowing manufacturing capex.

Exhibit 1: ROK Organic Growth vs. US manufacturing capex y/y

73% correlation

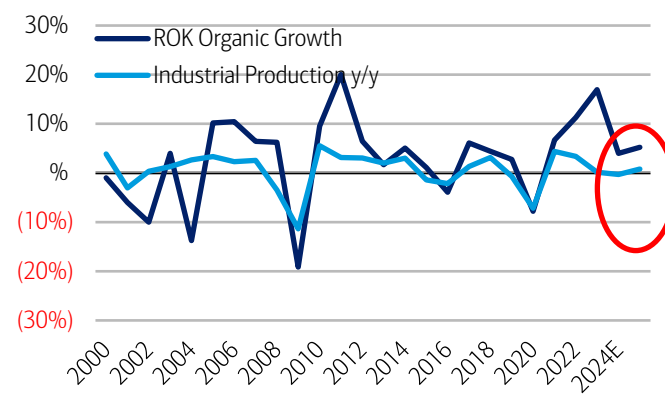


Source: BofA Global Research, company files

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Exhibit 2: ROK Organic Growth vs. Industrial Production y/y

65% correlation



Source: BofA Global Research, company files

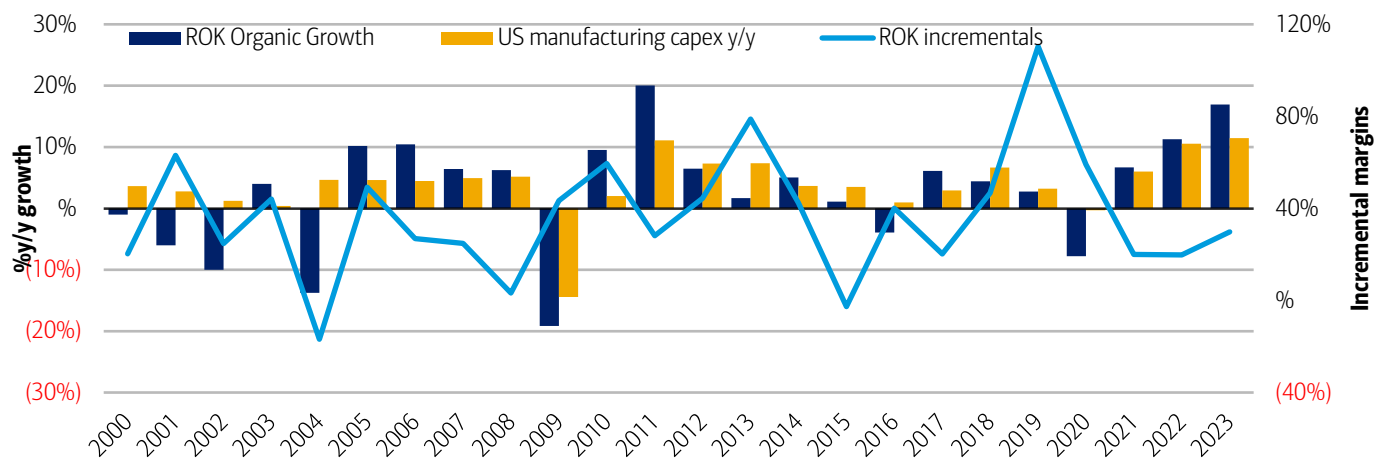
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Can ROK grow profitability? Long-term history suggests yes

A key question we have is whether ROK can grow profitably in a faster capex environment. Over the past 25 years, ROK has delivered double-digit growth in 6 years – 2005/2006, 2010/2011, and 2022/2023. In the previous cycles – 2005/2006 and 2010/2011 – ROK was able to deliver ~41% incrementals on average. The company is confident it can deliver those incrementals or better as volumes come back and mix headwinds (100-150bp y/y in 1H24) dissipate.

Exhibit 3: ROK organic growth vs. US manufacturing capex y/y vs. ROK incrementals

In years of double-digit organic growth, ROK has consistently posted strong incrementals



Source: BofA Global Research, company files

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We forecast 43% incrementals in 3Q and 57% incrementals in 4Q for the total company, Lifecycle Services is driving particularly robust incrementals in 4Q as Sensia turned profitable in 1Q24 and should stay profitable through the remainder of the year.

Below we indicate operating margin and incrementals by segment and for the total company. We have indicated decrements in red.

Exhibit 4: Operating margin & incrementals by segment and total company

We model materially better incrementals in 2H24E

	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24E	2Q24E	3Q24E	4Q24E
<i>Operating Margin</i>												
Intelligent Devices	23.7%	14.6%	19.7%	22.3%	22.4%	20.2%	16.8%	21.3%	16.2%	16.2%	24.6%	27.2%
Software & Control	22.9%	24.6%	31.4%	34.5%	29.2%	33.6%	34.8%	33.5%	25.0%	25.6%	31.8%	33.0%
Lifecycle Services	5.5%	7.3%	9.4%	10.7%	5.2%	5.5%	9.3%	8.4%	10.4%	11.0%	11.3%	12.2%
Total Operating Margin	19.1%	15.7%	20.8%	23.3%	20.2%	21.3%	21.1%	22.3%	17.3%	17.8%	23.8%	25.9%
<i>Incremental Margin</i>												
Intelligent Devices	40.8%	201.4%	443.5%	46.8%	-10.0%	41.3%	-11.2%	16.7%	665.2%	80.1%	57.3%	57.6%
Software & Control	-21.3%	-56.1%	64.0%	65.7%	83.7%	57.1%	49.3%	29.4%	-53.8%	114.5%	-68.2%	24.7%
Lifecycle Services	-28.4%	-11.2%	-5.0%	31.9%	-0.7%	-12.5%	8.2%	-11.6%	60.4%	94.7%	29.6%	143.2%
Total Incremental Margin	15.7%	-333.4%	33.6%	53.9%	37.1%	42.9%	23.6%	17.6%	-64.0%	98.7%	43.1%	56.9%

Source: BofA Global Research

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Maintaining FY24 adj. cash EPS

Management maintained FY24 adj. cash EPS guidance. The guide continues to incorporate ~21.5% segment margins and (2.0)-+4.0% organic growth.

Exhibit 6: ROK adj. EPS guidance vs. BofA estimates vs. consensus

Maintaining our \$13.38 FY24 adj. EPS estimate

As of	FY24 Outlook		BofA		Consensus
	4Q23	1Q24	Old	New	
Organic Sales Growth	(2.0)-4.0% y/y	(2.0)-4.0% y/y	4.0%	4.0%	1.8%
FX	1.5%	1.0%	1.5%	1.0%	0.0%
M&A	1.0%	1.5%	1.0%	1.5%	0.3%
Total Sales Growth	0.5%-6.5%	0.5%-6.5%	6.5%	6.5%	2.0%
Sales	~\$9.4bn	~\$9.4bn	\$9.61bn	\$9.64bn	\$9.64bn
Segment Operating Margin	~21.5%	~21.5%	21.8%	21.6%	21.6%
Tax Rate	17.0%	17.0%	17.0%	17.0%	17.1%
Adj. cash EPS	\$12.00-\$13.50	\$12.00-\$13.50	\$13.38	\$13.38	\$12.87
FCF Conversion	~100%	~100%	101%	95%	

Source: BofA Global Research, company files

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We have estimated various inputs based on company disclosure to provide a margin bridge from 2023 to 2024. Our forecasts assume robust leverage on the volumes shipped in 3Q/4Q (more standard products) and less inefficiencies. The 4Q margin exit rate implies a y/y benefit from the lack of restructuring charges, which were taken in 4Q23. Our work indicates that either 1) 2Q24 margin framework is conservative, or 2) volume estimates should be much lower.

Exhibit 7: ROK margin bridge from 2023 to 2024

Bridging our 21.7% margin estimate

ROK margin bridge					
	1Q24	2Q24	3Q24	4Q24	
Revenue BOP	1981	2275	2239	2563	9058
Volume	-40	-191	225	219	214
Price	59	46	45	26	175
Acq/Divestiture	28	36	36	36	136
FX	23	12	5	12	53
Revenue EOP	2,052	2,178	2,549	2,856	9,635
Revenue EOP from model	2,052	2,178	2,549	2,856	9,635
	-	-	-	-	
Segment Income BOP	401	484	473	572	1,930
Acquisitions	(9)	(7)	(6)	(5)	(27)
Volume leverage	(12)	(57)	94	92	117
Price/cost	15	15	15	15	60
Mix	(17)	(25)	-	1	(41)
Investment spend	(56)	(10)	(5)	-	(71)
Incentive comp	28	28	28	28	111
FX	2	1	1	1	5
Restructuring charge spending	-	-	-	27	27
Cost out/productivity/other	2	(41)	4	8	(27)
Segment Income EOP	356	388	603	738	2,085
Segment Income EOP from model	356	388	603	738	2,085
	-	-	-	-	
Margin	17.3%	17.8%	23.7%	25.9%	21.6%
Incremental margins	-64.0%	98.7%	41.9%	56.9%	26.9%

Source: BofA Global Research, company files

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Orders bottomed in 4Q, inflecting upwards

Rockwell commentary around orders and backlog implies ~\$1.72bn in orders in 1QF24, broadly in line with our \$1.75bn estimate. This reflects (28)% y/y declines and 18% q/q



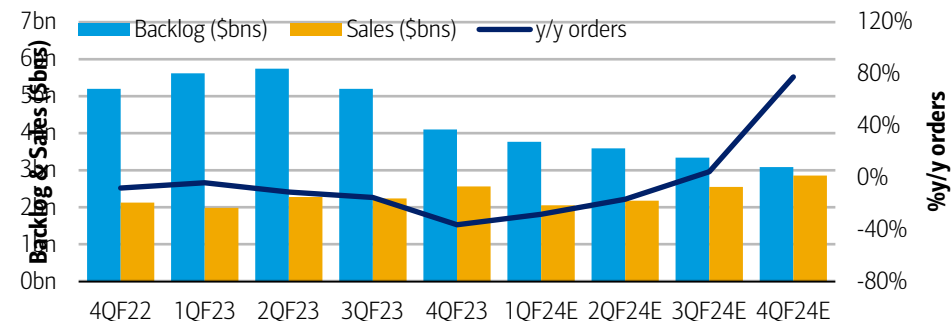
growth. We forecast another 16% sequential increase in 2QF24 and for orders to continue growing sequentially through the rest of the year.

The company maintained its guide for low-single digit order growth next year and to end the year with \$3.0bn in backlog. This compares to \$1.4bn ending backlog at FY19 (~20% forward backlog coverage).

We note that the guide for orders and management commentary suggests orders re-accelerate back to supply chain peaks (e.g., ~\$2.6bn) in 2H24 after the destocking period ends. We think expectations are for mega-projects to flow into the order books in that timeframe.

Exhibit 7: Backlog coverage normalizes to 30% by YE23 on our math

Backlog & Sales vs. %y/y orders

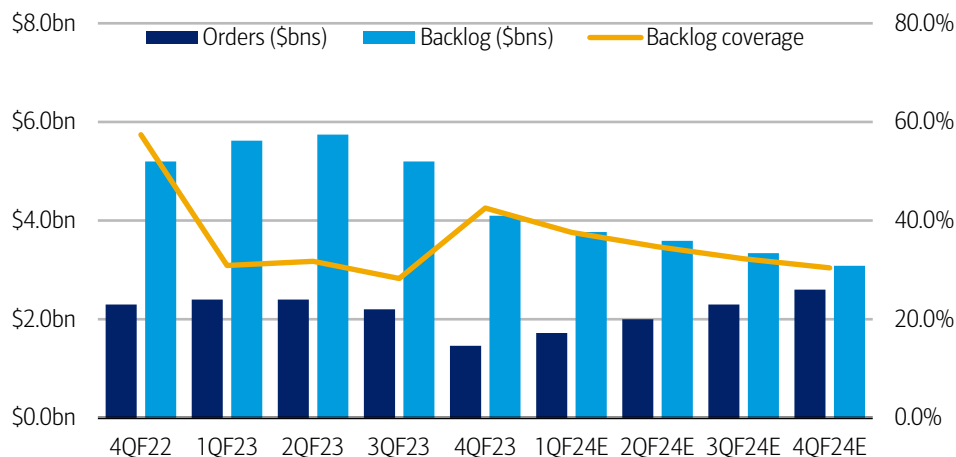


Source: BofA Global Research, company files

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Exhibit 8: Orders vs. backlog vs. backlog coverage

We forecast a re-acceleration in orders as the company continues to work down backlog and transition to more book-and-ship



Source: BofA Global Research, company files

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Software growth grows 20% y/y

Total ARR grew +20% y/y in the quarter, which compares to +16% last quarter.

Management is guiding for mid-teens y/y organic ARR growth in FY24 vs. ~15% in FY23.

Rockwell's software growth framework consists of: 1) growing the core automation business, 2) growing Information Solutions & Connected Services at a double-digit rate, and 3) inorganic acquisitions focused on software.

Growth by geography

Exhibit 10: Rockwell revenue growth by region, 1QF22-1QF24
North America led the pack this quarter with 4% organic growth

	1QF22	2QF22	3QF22	4QF22	FY22	1QF23	2QF23	3QF23	4QF23	FY23	1QF24
North America	15.9%	-3.2%	10.9%	20.1%	10.7%	7.7%	22.7%	1.7%	12.2%	10.8%	4.2%
EMEA	14.8%	5.9%	3.2%	24.1%	11.8%	13.3%	41.7%	33.9%	23.4%	27.9%	-2.2%
APAC	24.8%	9.3%	-5.8%	17.9%	11.8%	16.0%	31.8%	44.4%	31.5%	30.5%	-7.4%
Latin America	<u>14.3%</u>	<u>12.9%</u>	<u>15.5%</u>	<u>20.0%</u>	<u>15.8%</u>	<u>6.3%</u>	<u>16.3%</u>	<u>6.7%</u>	<u>24.1%</u>	<u>13.6%</u>	<u>-0.5%</u>
Total	16.8%	1.3%	7.1%	20.5%	11.3%	9.9%	27.3%	13.2%	20.5%	16.9%	1.0%

Source: BofA Global Research, company files

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1QF24: +1.0% y/y core revenue growth

Exhibit 11: Rockwell commentary on growth by vertical

The company maintained its outlook for all industry verticals

	2022				2023				2024	
	1QA	2QA	3QA	4QA	1QA	2QA	3QA	4QA	1QA	Outlook (1Q24)
<i>Slides commentary on y/y quarterly growth</i>										
Auto	Up mid teens	Down HSD	Up MSD	Up ~25%	Up 25%	Up 40%	Up mid-teens	Up 30%	Down HSD	Up low single digits
Semiconductor	Up ~25%	Up LSD	Down LSD	Up ~30%	Up 20%	Up mid-teens	Up high-teens	Up high single digits	Down HSD	Down low single digits
General Industries										
Warehousing & E-commerce	Up ~30%	Down HSD	Down mid teens	Up HSD	down low-teens	Down MSD	Down high teens	Down MSD	Down mid-teens	Up low-single digits
Discrete	Up ~20%	~5%	Up LSD	Up ~20%	Up low teens	Up ~20%	Up ~10%	Up 15%	Down ~10%	Down low single digits
Food & Beverage	Up ~20%	Flat	Up MSD	Up ~20%	Up ~15%	Up 40%	Up mid-teens	Up LDD	Down HSD	Up low-single digits
Life Sciences	Up ~10%	Up low teens	Up ~15%	Up >35%	Up MSD	Up 20%	Up MSD	Up MSD	Up ~10%	Up low-single digits
Tire	Up ~35%	Up ~20%	Up LSD	Up ~20%	Up MSD	Up 50%	Up 35%	Up high teens	Up high-single digits	Down low-single digits
Hybrid	Up ~15%	Up ~5%	Up MSD	Up ~25%	Up low teens	Up 35%	Up 15%	Up low teens	Flat	Up low-single digits
Oil & Gas	Up low teens	Up mid teens	Up ~25%	Up HSD	Up mid-single digits	Up 25%	Up mid-teens	Up ~30%	Up ~25%	Up high-single digits
Mining, Aggregates & Cement	Up MSD	Down LSD	teens	Up LSD	Up ~10%	Up 25%	Up 30%	Up ~60%	Mining up high-teens	Up low-single digits
Chemicals	Up ~20%	Down LSD	Up HSD	Up ~30%	Up low-single digits	Up high teens	Up LSD	Up HSD	Up mid-single digits	Up low-single digits
Process	Up ~15%	Up ~5%	Up low teens	Up mid teens	Up mid-single digits	Up 25%	Up 15%	Up ~25%	Up ~10%	Up low-single digits

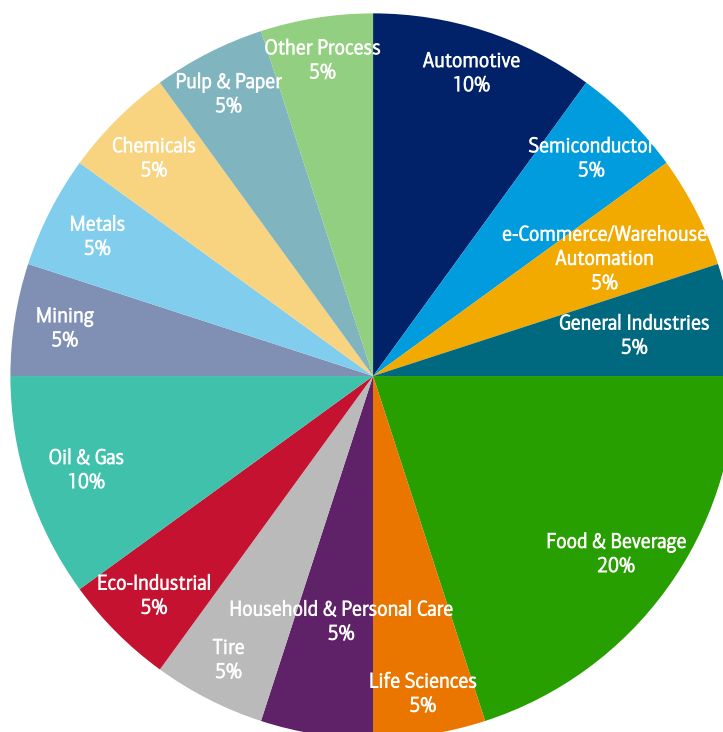
Source: BofA Global Research, company files

Note: LSD: low single digit; MSD: mid single digit; HSD: high single digit

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Exhibit 11: Rockwell end market breakout, FY23

Food & Beverage (20% of revenues) is the largest end market



Source: BofA Global Research, company files

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Discrete (25% of sales): FY24 guidance for down low-single digits

Discrete industries were down 10% y/y in 1QF24 versus up 15% last quarter. Management maintained FY24 outlook for the segment as down low-single digits.

- **Auto** was up down 10% y/y, which compares to 30% growth last quarter. ROK expects autos up low single digits in 2024.
- **Semis** were down low single digits y/y, which compares to high single digit growth last quarter. ROK's core semiconductor strength is in control systems (e.g., temperature, humidity, etc.) and process tools. ROK has been increasing its share of wallet in semiconductor plants with its independent cart technology, which is used for wafer transport. ROK expects 2024 semis to be down low-single digits.
- **E-commerce & Warehouse Automation** was down mid-teens y/y, which compares to mid-single digits last quarter. Management expectations for FY24 are for low single digits growth. On the conference call, the company cited its customers are renewing capex plans for e-Commerce/fulfillment builds in FY24/FY25.

Hybrid (40% of sales): FY24 guidance for low-single digit growth

Hybrid industries were flat this quarter, which compares to up low teens last quarter.

- **Life Sciences** core growth was up 10% in 1QF24 which compares to mid single digits y/y in 4QF23. Management expects life sciences to be up low-single digits in '24.
- **Food & Beverage (F&B)** was down HSD in 1QF24 which compares to up low double digits y/y in 4QF23. Management expects food & beverage to be up low single digits. Product availability and internal capacity constraints were an issue in the quarter for ROK, but end market demand remains solid.
- **Tire** was up high-single digits vs. high teens y/y in 4QF23. Management expects tire to be down low single digits in '24.

Process (35% of revenue): FY24 guidance for up low single digits

Process industries organic revenue growth came in at +10% versus to ~25% y/y in 4QF23. Management introduced FY24 outlook at up low single digits y/y in 2024.

- **Oil & Gas** end markets were up 25% in 1QF24 vs. up 30% in 4QF23. Management expects 2024 growth of high single digits. Approximately 60% of ROK's O&G business is upstream, with the remainder in midstream.
- **Mining, Aggregates & Cement** was up high-teens in 1QF24 which compares to ~60% in 4QF23. Management expects the end market to grow low single digits in FY24. We have been hearing concerns on this end market but it seems that the growth outlook is still strong in 2024. Low-single digits growth is consistent with our Capex Tracker, which indicates low-single digit capex growth in the mining end market.
- **Chemicals** was up mid-single digits which compares to high single digits in 4QF23. Management expects the end market to be up low single digits in FY24.

Valuation

We base our \$280 price objective on a 15x multiple on our CY25 estimate. Our target multiple is in line with the 15x peer average on 2024. We balance execution concerns with market share in the US automation market.

Exhibit 13: ROK valuation versus comparables

We base our \$280 price objective on a 15x multiple of our CY25 estimate

Company	Ticker	Stock Price 1/31/2024	P/E		EV/EBITDA		EBITDA margin		EPS growth	
			2024E	2025E	2024E	2025E	2024E	2025E	2024E	2025E
ABB	ABLZF	\$43.64	21.5 x	19.5 x	13.4 x	12.9 x	17.9%	17.7%	4.5%	10.0%
Eaton	ETN	\$246.08	26.7 x	25.1 x	21.9 x	20.3 x	19.1%	19.6%	5.4%	6.5%
Emerson	EMR	\$91.73	17.1 x	15.7 x	12.8 x	12.0 x	29.3%	31.3%	15.5%	8.8%
FANUC*	6N54 JT	¥4,117	29.3 x	25.5 x	17.8 x	16.0 x	23.3%	24.0%	6.6%	15.2%
Honeywell	HON	\$202.26	20.1 x	18.1 x	14.7 x	13.8 x	24.8%	25.2%	9.7%	10.6%
OMRON*	6645 JT	¥6,710	30.3 x	20.5 x	15.6 x	14.0 x	9.8%	10.1%	33.1%	47.6%
Schneider	SBGSF	€ 182.90	24.7 x	22.7 x	16.1 x	15.0 x	18.8%	19.3%	6.0%	9.1%
Siemens	SMAWF	€ 166.68	17.3 x	15.1 x	11.5 x	10.9 x	17.2%	17.2%	-0.2%	15.2%
SMC Corp*	6273 JT	¥82,910	29.1 x	27.1 x	18.0 x	16.9 x	31.9%	31.4%	-2.8%	7.4%
Spectris	SEPJF	GBp 3,701	18.0 x	15.4 x	10.3 x	9.3 x	20.7%	21.5%	5.5%	17.2%
Yokogawa*	6841 JT	¥2,924	<u>16.4 x</u>	<u>16.6 x</u>	<u>8.9 x</u>	<u>8.3 x</u>	<u>15.4%</u>	<u>16.2%</u>	<u>1.4%</u>	<u>-1.1%</u>
AVERAGE			22.8 x	20.1 x	14.6 x	13.6 x	20.8%	21.2%	7.7%	13.3%
Rockwell	ROK	\$253.28	18.5 x	16.9 x	14.8 x	13.5 x	21.6%	22.3%	10.0%	9.6%
Rockwell at PO		\$280.00	20.4 x	18.7 x	16.2 x	14.9 x				

Source: BofA Global Research estimates, Bloomberg

BofA GLOBAL RESEARCH



Price objective basis & risk

Rockwell (ROK)

We base our \$280 price objective on a 15x EV/EBITDA multiple of our CY25 estimate. Our target multiple is in line with the 15x peer average on 2024E. We offset execution concerns with ROK's position in the US automation market.

Upside risks are 1) supply chain improvement, 2) potentially accretive acquisitions.

Downside risks are 1) delays in global capex, 2) execution risks, 3) supply-chain constraints, and 4) greater competition.

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I, Andrew Obin, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Multi-Industrials/Engineering and Construction Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
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	AspenTech	AZPN	AZPN US	Andrew Obin
	Atmus Filtration	ATMU	ATMU US	Andrew Obin
	Dover Corp	DOV	DOV US	Andrew Obin
	Eaton Corp PLC	ETN	ETN US	Andrew Obin
	Emerson Electric Co	EMR	EMR US	Andrew Obin
	Flowserve	FLS	FLS US	Andrew Obin
	General Electric Company	GE	GE US	Andrew Obin
	Honeywell International Inc.	HON	HON US	Andrew Obin
	ITT Inc.	ITT	ITT US	Andrew Obin
	Montrose Environmental Group, Inc.	MEG	MEG US	Andrew Obin
	Parker Hannifin Corporation	PH	PH US	Andrew Obin
	PTC Inc.	PTC	PTC US	Andrew Obin
	Rush	RUSHA	RUSHA US	Andrew Obin
	Vertiv	VRT	VRT US	Andrew Obin
	Vontier	VNT	VNT US	Andrew Obin
NEUTRAL				
	3M Company	MMM	MMM US	Andrew Obin
	AMETEK Inc	AME	AME US	Andrew Obin
	Fortive Corporation	FTV	FTV US	Andrew Obin
	Johnson Controls International PLC	JCI	JCI US	Andrew Obin
	Pentair plc	PNR	PNR US	Andrew Obin
	Rockwell	ROK	ROK US	Andrew Obin
	Trane Technologies PLC	TT	TT US	Andrew Obin
UNDERPERFORM				
	Allegion	ALLE	ALLE US	Andrew Obin
	Carrier Global Corp.	CARR	CARR US	Andrew Obin
	Core & Main	CNM	CNM US	Andrew Obin
	Illinois Tool Works	ITW	ITW US	Andrew Obin
	John Bean Technologies	JBT	JBT US	Andrew Obin
	Keysight	KEYS	KEYS US	David Ridley-Lane, CFA

iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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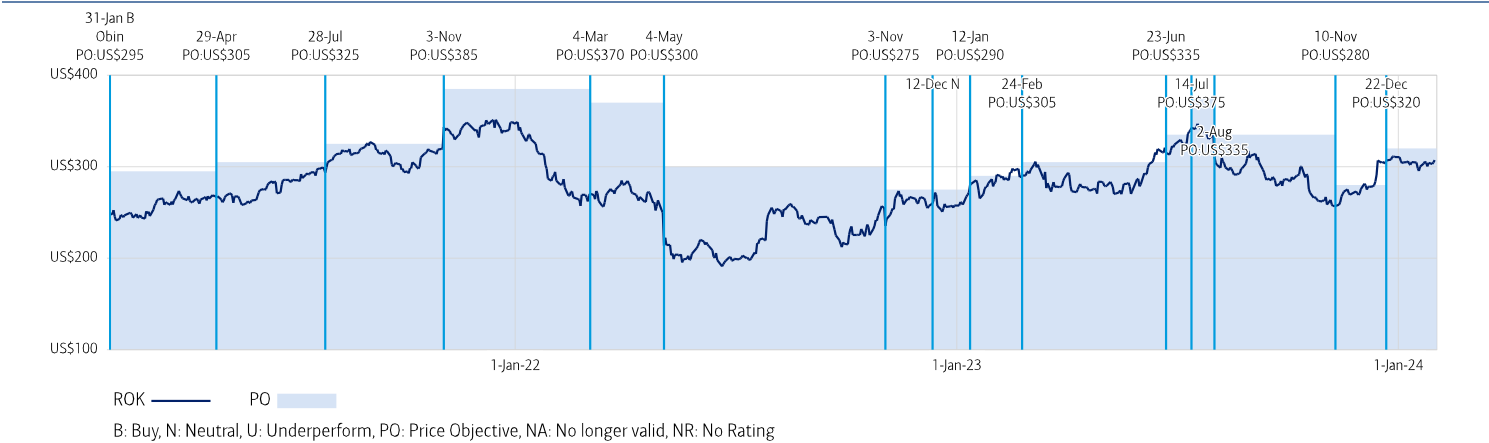
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Important Disclosures

Rockwell (ROK) Price Chart



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Equity Investment Rating Distribution: Industrials/Multi-Industry Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	45	50.56%	Buy	25	55.56%
Hold	26	29.21%	Hold	13	50.00%
Sell	18	20.22%	Sell	7	38.89%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
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Underperform	N/A	≥ 20%

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