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Rockwell Automation Reports Third Quarter 2013 Results

July 30, 2013

- Sales up 4 percent year over year; up 7 percent sequentially
- Adjusted EPS of \$1.54, up 12 percent
- Diluted EPS of \$1.45
- Company narrows Adjusted EPS guidance for fiscal 2013 to \$5.50 - \$5.70

MILWAUKEE--(BUSINESS WIRE)--Jul. 30, 2013-- Rockwell Automation, Inc. (NYSE: ROK) today reported fiscal 2013 third quarter sales of \$1,624.2 million, up 4 percent from \$1,560.4 million in the third quarter of fiscal 2012. Organic sales growth was also 4 percent as acquisitions and currency translation had a negligible impact. Fiscal 2013 third quarter sales were up 7 percent sequentially compared to the second quarter of fiscal 2013.

Fiscal 2013 third quarter Adjusted EPS was \$1.54, up 12 percent compared to Adjusted EPS of \$1.37 in the third quarter of fiscal 2012. Total segment operating earnings were \$317.8 million compared to \$292.1 million in the same period of 2012. Total segment operating margin increased to 19.6 percent from 18.7 percent a year ago, primarily due to volume leverage and productivity.

On a GAAP basis, fiscal 2013 third quarter net income was \$203.7 million or \$1.45 per share, compared to \$190.7 million or \$1.33 per share in the third quarter of fiscal 2012. Pre-tax margin increased to 15.8 percent from 15.7 percent in the same period last year.

In order to provide transparency into the operating results of its business, effective with the first quarter of fiscal 2013, the Company is providing non-GAAP measures (Adjusted Income, Adjusted EPS and Adjusted Effective Tax Rate) that exclude non-operating pension costs and their related tax effects. The Company defines 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. In addition, the Company has redefined segment operating earnings to exclude non-operating pension costs. Prior year results are provided on a comparable basis.

Commenting on the results, Keith D. Nosbusch, chairman and chief executive officer, said, "I am very pleased with 4 percent year-over-year organic growth this quarter and sequential growth in all regions. We expected to see an improvement in sales in the second half of our fiscal year, and the third quarter results support that. Adjusted EPS in the quarter was up 12 percent with strong operating margin performance. Free cash flow was very good again this quarter.

"Through nine months, organic sales are up 1 percent year over year and segment operating margin has expanded 30 basis points. Our entire organization has done a great job driving productivity in what continues to be a low growth environment."

Outlook

Commenting on the outlook, Nosbusch added, "We expect market conditions to remain stable through the fourth quarter. We now project our fiscal full-year sales to be about \$6.3 billion. This represents full-year organic growth of approximately 1 percent. Based on this revised sales outlook and our year-to-date earnings performance, we are narrowing our Adjusted EPS guidance, while maintaining the high end of the previous range. The new Adjusted EPS guidance range is \$5.50 to \$5.70.

"In this low growth environment, we will remain flexible and continue to balance investing in innovation and customer-facing resources with delivering strong shareowner returns."

Following is a discussion of third quarter results for both segments.

NYSE:ROK

\$257.15

Change: -12.02 (-4.47%)

Volume: 685,489

December 15, 2022
20 minutes delay

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compared to \$185.2 million in 2012. Segment operating margin increased to 28.1 percent from 27.9 percent a year ago.

Control Products & Solutions

Control Products & Solutions fiscal 2013 third quarter sales were \$953.2 million, an increase of 6 percent from \$896.6 million last year. Segment operating earnings were \$129.2 million in the third quarter of fiscal 2013 compared to \$106.9 million in 2012. Segment operating margin increased to 13.6 percent from 11.9 percent a year ago, primarily due to volume leverage and productivity.

Other Information

Free cash flow was \$263.6 million in the third quarter of fiscal 2013. Cash flow provided by operating activities was \$293.9 million in the third quarter of fiscal 2013. Return on invested capital was 31.0 percent.

Fiscal 2013 third quarter general corporate-net expense was \$20.9 million compared to \$18.3 million in 2012.

The effective tax rate in the third quarter of 2013 was 20.9 percent compared to 22.1 percent in the third quarter of 2012. The Adjusted Effective Tax Rate for the third quarter of fiscal 2013 was 22.0 percent compared to 22.6 percent a year ago. The Company now expects the full-year Adjusted Effective Tax Rate for fiscal 2013 to be approximately 24 percent.

During the third quarter of fiscal 2013, the Company repurchased 1.2 million shares of its common stock at a cost of \$104.3 million. At June 30, 2013, \$618.6 million remained available under the \$1.0 billion share repurchase authorization. On April 3, 2013, the Board of Directors declared an 11 percent increase in the quarterly dividend to 52 cents per share on common stock, which was paid on June 10, 2013.

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 July 30, 2013. 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, 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, services and solutions and pricing pressures, and our ability to provide high quality products, services and solutions;
- a disruption of our operations and supply chain due to natural disasters, acts of war, strikes, terrorism, social unrest or other causes;
- our ability to protect confidential information and enforce our intellectual property rights;
- our ability to successfully address 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;

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- a disruption of our distribution channels;
- the availability and price of components and materials;
- the successful integration and management of acquired businesses;
- the successful execution of our cost productivity and globalization initiatives; and
- other risks and uncertainties, including but not limited to those detailed from time to time in our Securities and Exchange Commission 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)

	Three Months Ended		Nine Months Ended	
	June 30,		June 30,	
	2013	2012	2013	2012
Sales				
Architecture & Software (a)	\$ 671.0	\$ 663.8	\$ 1,967.7	\$ 1,979.1
Control Products & Solutions (b)	953.2	896.6	2,668.5	2,616.3
Total sales (c)	<u>\$ 1,624.2</u>	<u>\$ 1,560.4</u>	<u>\$ 4,636.2</u>	<u>\$ 4,595.4</u>
Segment operating earnings				
Architecture & Software (d)	\$ 188.6	\$ 185.2	\$ 541.7	\$ 545.0
Control Products & Solutions (e)	129.2	106.9	337.3	315.5
Total segment operating earnings ¹ (f)	317.8	292.1	879.0	860.5
Purchase accounting depreciation and amortization	(4.6)	(5.0)	(14.8)	(14.9)
General corporate—net	(20.9)	(18.3)	(57.5)	(63.0)
Non-operating pension costs ²	(19.6)	(8.8)	(59.0)	(26.4)
Interest expense	(15.3)	(15.2)	(46.0)	(45.2)
Income before income taxes (g)	257.4	244.8	701.7	711.0
Income tax provision	(53.7)	(54.1)	(160.7)	(169.2)
Net income	<u>\$ 203.7</u>	<u>\$ 190.7</u>	<u>\$ 541.0</u>	<u>\$ 541.8</u>
Diluted EPS	<u>\$ 1.45</u>	<u>\$ 1.33</u>	<u>\$ 3.83</u>	<u>\$ 3.76</u>
Adjusted EPS ²	<u>\$ 1.54</u>	<u>\$ 1.37</u>	<u>\$ 4.09</u>	<u>\$ 3.87</u>
Average diluted shares	<u>140.4</u>	<u>143.5</u>	<u>141.1</u>	<u>144.0</u>
Segment operating margin				
Architecture & Software (d/a)	28.1%	27.9%	27.5%	27.5%
Control Products & Solutions (e/b)	13.6%	11.9%	12.6%	12.1%
Total segment operating margin ¹ (f/c)	19.6%	18.7%	19.0%	18.7%
Pre-tax margin (g/c)	15.8%	15.7%	15.1%	15.5%

¹Total segment operating earnings and total segment operating margin are non-GAAP financial measures. 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.

²Beginning in fiscal 2013, we reclassified for all periods presented non-operating pension costs to a separate line item within the above table. Previously, these costs were included in segment operating earnings and general corporate, net. Adjusted EPS is a non-GAAP earnings measure that excludes the non-operating pension costs and their related income tax effects. See "Other Supplemental Information -

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CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
(in millions)

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2013	2012	2013	2012
Sales	\$ 1,624.2	\$ 1,560.4	\$ 4,636.2	\$ 4,595.4
Cost of sales	(971.3)	(928.9)	(2,759.6)	(2,726.9)
Gross profit	652.9	631.5	1,876.6	1,868.5
Selling, general and administrative expenses	(383.7)	(369.8)	(1,134.0)	(1,105.3)
Other income (expense)	3.5	(1.7)	5.1	(7.0)
Interest expense	(15.3)	(15.2)	(46.0)	(45.2)
Income before income taxes	257.4	244.8	701.7	711.0
Income tax provision	(53.7)	(54.1)	(160.7)	(169.2)
Net income	\$ 203.7	\$ 190.7	\$ 541.0	\$ 541.8

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

	June 30, 2013	September 30, 2012
Assets		
Cash and cash equivalents	\$ 1,024.7	\$ 903.9
Short-term investments	372.3	350.0
Receivables	1,155.1	1,187.3
Inventories	619.0	619.0
Property, net	581.4	587.1
Goodwill and intangibles	1,219.4	1,158.3
Other assets	799.4	830.9
Total	\$ 5,771.3	\$ 5,636.5
Liabilities and Shareowners' Equity		
Short-term debt	\$ 220.0	\$ 157.0
Accounts payable	499.3	547.6
Long-term debt	905.1	905.0
Other liabilities	2,139.1	2,175.2
Shareowners' equity	2,007.8	1,851.7
Total	\$ 5,771.3	\$ 5,636.5

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

	Nine Months Ended June 30,	
	2013	2012
Continuing operations:		
Operating activities:		
Income from continuing operations	\$ 541.0	\$ 541.8
Depreciation and amortization	109.1	102.9
Retirement benefits expense	127.8	78.6
Pension trust contributions	(29.9)	(328.5)
Receivables/inventories/payables	(43.3)	(78.7)
Advanced payments from customers and deferred revenue	26.0	42.6
Compensation and benefits	(55.5)	(128.7)
Income taxes	20.0	79.6
Other	(31.4)	19.0
Cash provided by operating activities	663.8	328.6
Investing activities:		
Capital expenditures	(86.9)	(94.9)
Acquisition of businesses, net of cash acquired	(84.8)	(16.2)
Purchases of short-term investments	(284.6)	(400.0)

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Financing activities:

Net issuance of short-term debt	63.0	270.0
Cash dividends	(203.9)	(181.5)
Purchases of treasury stock	(319.3)	(168.3)
Proceeds from the exercise of stock options	115.8	44.4
Excess income tax benefit from share-based compensation	22.6	17.3
Other financing activities	(1.8)	(0.3)
Cash used for financing activities	(323.6)	(18.4)
Effect of exchange rate changes on cash	(14.8)	(34.1)
Cash provided by (used for) continuing operations	127.8	(182.6)
Discontinued operations:		
Cash used for discontinued operations	(7.0)	(0.7)
Increase (decrease) in cash and cash equivalents	<u>\$ 120.8</u>	<u>\$ (183.3)</u>

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 and nine months ended June 30, 2013 compared to sales for the three and nine months ended June 30, 2012:

	Three Months Ended June 30,					
	2013			2012		
	Sales	Effect of Changes in Currency	Excluding Effect of Changes in Currency	Effect of Acquisitions	Organic Sales	Sales
United States	\$ 807.7	\$ 0.2	\$ 807.9	\$ —	\$ 807.9	\$ 775.1
Canada	131.5	1.8	133.3	—	133.3	121.5
Europe, Middle East, Africa	318.6	(1.7)	316.9	—	316.9	306.9
Asia-Pacific	223.1	0.7	223.8	(4.3)	219.5	238.8
Latin America	143.3	2.0	145.3	—	145.3	118.1
Total	<u>\$ 1,624.2</u>	<u>\$ 3.0</u>	<u>\$ 1,627.2</u>	<u>\$ (4.3)</u>	<u>\$ 1,622.9</u>	<u>\$ 1,560.4</u>
	Nine Months Ended June 30,					
	2013			2012		
	Sales	Effect of Changes in Currency	Excluding Effect of Changes in Currency	Effect of Acquisitions	Organic Sales	Sales
United States	\$ 2,345.7	\$ (0.9)	\$ 2,344.8	\$ (2.1)	\$ 2,342.7	\$ 2,250.4
Canada	354.6	(0.4)	354.2	—	354.2	343.0
Europe, Middle East, Africa	931.8	11.3	943.1	—	943.1	956.1
Asia-Pacific	608.8	(0.2)	608.6	(6.6)	602.0	683.7
Latin America	395.3	10.0	405.3	—	405.3	362.2
Total	<u>\$ 4,636.2</u>	<u>\$ 19.8</u>	<u>\$ 4,656.0</u>	<u>\$ (8.7)</u>	<u>\$ 4,647.3</u>	<u>\$ 4,595.4</u>

The following is a reconciliation of reported sales to organic sales for our reporting segments for the three and nine months ended June 30, 2013 compared to sales for the three and nine months ended June 30,



	Sales					Sales
	Sales	Effect of Changes in Currency	Excluding Effect of Changes in Currency	Effect of Acquisitions	Organic Sales	
Architecture & Software	\$ 671.0	\$ 0.8	\$ 671.8	\$ —	\$ 671.8	\$ 663.8
Control Products & Solutions	953.2	2.2	955.4	(4.3)	951.1	896.6
Total	\$ 1,624.2	\$ 3.0	\$ 1,627.2	\$ (4.3)	\$ 1,622.9	\$ 1,560.4

	Sales					Sales
	Sales	Effect of Changes in Currency	Excluding Effect of Changes in Currency	Effect of Acquisitions	Organic Sales	
Architecture & Software	\$ 1,967.7	\$ 10.1	\$ 1,977.8	\$ —	\$ 1,977.8	\$ 1,979.1
Control Products & Solutions	2,668.5	9.7	2,678.2	(8.7)	2,669.5	2,616.3
Total	\$ 4,636.2	\$ 19.8	\$ 4,656.0	\$ (8.7)	\$ 4,647.3	\$ 4,595.4

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 Effective Tax Rate may be different from measures used by other companies. These non-GAAP measures should not be considered a substitute for income from continuing operations, diluted EPS and effective tax rate.

The following is a reconciliation 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 June 30,		Nine Months Ended June 30,	
	2013	2012	2013	2012
Income from continuing operations	\$ 203.7	\$ 190.7	\$ 541.0	\$ 541.8
Non-operating pension costs	19.6	8.8	59.0	26.4
Tax effect of non-operating pension costs	(7.2)	(3.1)	(21.5)	(9.4)
Adjusted Income	\$ 216.1	\$ 196.4	\$ 578.5	\$ 558.8
Diluted EPS from continuing operations	\$ 1.45	\$ 1.33	\$ 3.83	\$ 3.76
Non-operating pension costs per diluted share, before tax	0.14	0.06	0.42	0.18
Tax effect of non-operating pension costs per diluted share	(0.05)	(0.02)	(0.16)	(0.07)
Adjusted EPS	\$ 1.54	\$ 1.37	\$ 4.09	\$ 3.87
Effective tax rate	20.9%	22.1%	22.9%	23.8%
Tax effect of non-operating pension costs	1.1%	0.5%	1.1%	0.4%
Adjusted Effective Tax Rate	22.0%	22.6%	24.0%	24.2%

Year Ended
Fiscal 2013 September 30,
Guidance 2012

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

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:

	Quarter Ended						
	Dec. 31, 2011	Mar. 31, 2012	Jun. 30, 2012	Sept. 30, 2012	Dec. 31, 2012	Mar. 31, 2013	Jun. 30, 2013
Cash provided by (used for) continuing operating activities	\$(189.0)	\$253.5	\$264.1	\$390.1	\$167.3	\$202.6	\$293.9
Capital expenditures of continuing operations	(31.6)	(30.9)	(32.4)	(44.7)	(21.6)	(33.4)	(31.9)
Excess income tax benefit from share-based compensation	9.8	7.0	0.5	1.2	10.6	10.4	1.6
Free cash flow ¹	<u>\$(210.8)</u>	<u>\$229.6</u>	<u>\$232.2</u>	<u>\$346.6</u>	<u>\$156.3</u>	<u>\$179.6</u>	<u>\$263.6</u>

¹ Free cash flow for the first quarter of fiscal 2012 includes a discretionary pre-tax contribution to the Company's U.S. pension trust of \$300 million.

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:

(a) Income from continuing operations, before interest expense, income tax provision, and purchase accounting depreciation and amortization, for the most recent twelve months, divided by;

(b) 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;

(c) one minus the effective tax rate for the twelve-month period.

ROIC is calculated as follows:

	Twelve Months Ended	
	June 30,	
	2013	2012
(a) Return		
Income from continuing operations	\$ 736.2	\$ 743.6
Interest expense	60.9	59.8
Income tax provision	220.4	223.5
Purchase accounting depreciation and amortization	19.7	20.1
Return	<u>1,037.2</u>	<u>1,047.0</u>

(b) Average invested capital

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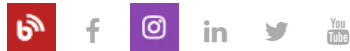
Cash and cash equivalents	(931.1)	(902.4)
Short-term investments	(357.2)	(162.5)
Average invested capital	2,573.4	2,649.1
 (c) Effective tax rate		
Income tax provision	220.4	223.5
Income from continuing operations before income taxes	\$ 956.6	\$ 967.1
Effective tax rate	23.0%	23.1%
 (a) / (b) * (1-c) Return On Invested Capital		
	31.0%	30.4%

Source: Rockwell Automation, Inc.

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