

ROCKWELL AUTOMATION INC
Form 10-Q
January 31, 2018
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended December 31, 2017
Commission file number 1-12383

Rockwell Automation, Inc.
(Exact name of registrant as specified in its charter)

Delaware	25-1797617
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1201 South Second Street, Milwaukee, Wisconsin	53204
(Address of principal executive offices)	(Zip Code)
+1 (414) 382-2000	
Registrant's telephone number, including area code	

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):
Large Accelerated Filer Accelerated Filer
Non-accelerated Filer (Do not check if smaller reporting company) Smaller Reporting Company
Emerging Growth Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes No

127,784,810 shares of registrant's Common Stock, \$1.00 par value, were outstanding on December 31, 2017.

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PART I. FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

ROCKWELL AUTOMATION, INC.

CONDENSED CONSOLIDATED BALANCE SHEET

(Unaudited)

(in millions, except per share amounts)

	December 31, 2017	September 30, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,547.0	\$ 1,410.9
Short-term investments	1,100.5	1,124.6
Receivables	1,149.9	1,135.5
Inventories	570.8	558.7
Other current assets	165.7	191.0
Total current assets	4,533.9	4,420.7
Property, net of accumulated depreciation of \$1,534.8 and \$1,511.9, respectively	565.8	583.9
Goodwill	1,082.3	1,077.7
Other intangible assets, net	234.0	238.0
Deferred income taxes	334.8	443.6
Other assets	407.9	397.8
Total	\$ 7,158.7	\$ 7,161.7
LIABILITIES AND SHAREOWNERS' EQUITY		
Current liabilities:		
Short-term debt	\$ 840.0	\$ 350.4
Current portion of long-term debt	—	250.0
Accounts payable	582.2	623.2
Compensation and benefits	194.3	272.6
Advance payments from customers and deferred revenue	267.5	240.6
Customer returns, rebates and incentives	176.8	188.8
Other current liabilities	225.8	220.2
Total current liabilities	2,286.6	2,145.8
Long-term debt	1,239.3	1,243.4
Retirement benefits	880.6	892.5
Other liabilities	596.0	216.4
Commitments and contingent liabilities (Note 11)		
Shareowners' equity:		
Common stock (\$1.00 par value, shares issued: 181.4)	181.4	181.4
Additional paid-in capital	1,642.9	1,638.0
Retained earnings	5,759.7	6,103.4
Accumulated other comprehensive loss	(1,175.7)	(1,179.2)
Common stock in treasury, at cost (shares held: December 31, 2017, 53.6; September 30, 2017, 53.0)	(4,252.1)	(4,080.0)
Total shareowners' equity	2,156.2	2,663.6
Total	\$ 7,158.7	\$ 7,161.7

See Notes to Condensed Consolidated Financial Statements.

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ROCKWELL AUTOMATION, INC.

CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS

(Unaudited)

(in millions, except per share amounts)

	Three Months Ended December 31,	
	2017	2016
Sales		
Products and solutions	\$1,412.5	\$1,330.2
Services	174.1	160.1
	1,586.6	1,490.3
Cost of sales		
Products and solutions	(783.2)	(747.1)
Services	(106.3)	(100.9)
	(889.5)	(848.0)
Gross profit	697.1	642.3
Selling, general and administrative expenses	(389.3)	(370.0)
Other income	10.0	4.0
Interest expense	(20.0)	(18.7)
Income before income taxes	297.8	257.6
Income tax provision	(534.2)	(42.9)
Net (loss) income	\$(236.4)	\$214.7
(Loss) Earnings per share:		
Basic	\$(1.84)	\$1.67
Diluted	\$(1.84)	\$1.65
Cash dividends per share	\$0.835	\$0.76
Weighted average outstanding shares:		
Basic	128.2	128.3
Diluted	128.2	129.7

See Notes to Condensed Consolidated Financial Statements.

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ROCKWELL AUTOMATION, INC.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE (LOSS) INCOME

(Unaudited)

(in millions)

	Three Months Ended December 31,	
	2017	2016
Net (loss) income	\$(236.4)	\$214.7
Other comprehensive income (loss), net of tax:		
Pension and other postretirement benefit plan adjustments (net of tax expense of \$7.4 and \$12.8)	20.2	24.5
Currency translation adjustments	(16.1)	(86.2)
Net change in unrealized gains and losses on cash flow hedges (net of tax (benefit) expense of (\$0.3) and \$4.0)	0.5	11.6
Net change in unrealized gains and losses on available-for-sale investments (net of tax benefit of \$0.3 and \$0.0)	(1.1)	—
Other comprehensive income (loss)	3.5	(50.1)
Comprehensive (loss) income	\$(232.9)	\$164.6
See Notes to Condensed Consolidated Financial Statements.		

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ROCKWELL AUTOMATION, INC.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(Unaudited)

(in millions)

	Three Months Ended		
	December 31,		
	2017		2016
Operating activities:			
Net (loss) income	\$ (236.4	)	\$ 214.7
Adjustments to arrive at cash provided by operating activities:			
Depreciation	32.5		32.5
Amortization of intangible assets	7.1		7.9
Share-based compensation expense	8.6		10.7
Retirement benefit expense	28.3		43.0
Pension contributions	(11.6	)	(13.5
Net loss on disposition of property	—		0.3
Changes in assets and liabilities, excluding effects of acquisitions and foreign currency adjustments:			
Receivables	(18.4	)	6.0
Inventories	(19.2	)	(27.9
Accounts payable	(36.8	)	(10.4
Advance payments from customers and deferred revenue	27.9		16.8
Compensation and benefits	(77.0	)	22.4
Income taxes	508.0		22.3
Other assets and liabilities	(0.3	)	(14.0
Cash provided by operating activities	212.7		310.8
Investing activities:			
Capital expenditures	(34.1	)	(39.4
Acquisition of businesses, net of cash acquired	(9.9	)	(1.1
	(275.2	)	(191.3

Purchases of investments				
Proceeds from maturities of investments	234.5		193.9	
Proceeds from sale of investments	51.5		—	
Proceeds from sale of property	0.2		0.3	
Cash used for investing activities	(33.0	)	(37.6)
Financing activities:				
Net issuance (repayment) of short-term debt	489.6		(40.0)
Repayment of long-term debt	(250.0)	—	
Cash dividends	(107.3	)	(97.5)
Purchases of treasury stock	(190.8	)	(82.0)
Proceeds from the exercise of stock options	30.1		67.6	
Other financing activities	1.8		—	
Cash used for financing activities	(26.6	)	(151.9)
Effect of exchange rate changes on cash	(17.0	)	(53.1)
Increase in cash and cash equivalents	136.1		68.2	
Cash and cash equivalents at beginning of period	1,410.9		1,526.4	
Cash and cash equivalents at end of period	\$ 1,547.0		\$ 1,594.6	

See Notes to Condensed Consolidated Financial Statements.

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ROCKWELL AUTOMATION, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Basis of Presentation and Accounting Policies

In the opinion of management of Rockwell Automation, Inc. ("Rockwell Automation" or "the Company"), the unaudited Condensed Consolidated Financial Statements contain all adjustments necessary to present fairly the financial position, results of operations and cash flows for the periods presented and, except as otherwise indicated, such adjustments consist only of those of a normal, recurring nature. These statements should be read in conjunction with our Annual Report on Form 10-K for the fiscal year ended September 30, 2017. The results of operations for the three-month period ended December 31, 2017, are not necessarily indicative of the results for the full year. All date references to years and quarters herein refer to our fiscal year and fiscal quarter unless otherwise stated.

Receivables

Receivables are stated net of an allowance for doubtful accounts of \$24.1 million at December 31, 2017, and \$24.9 million at September 30, 2017. In addition, receivables are stated net of an allowance for certain customer returns, rebates and incentives of \$16.5 million at December 31, 2017, and \$11.9 million at September 30, 2017.

Earnings Per Share

The following table reconciles basic and diluted (loss) earnings per share (EPS) amounts (in millions, except per share amounts):

	Three Months Ended December 31,	
	2017	2016
Net (loss) income	\$(236.4)	\$214.7
Less: Allocation to participating securities	0.2	(0.2)
Net (loss) income available to common shareowners	\$(236.2)	\$214.5
Basic weighted average outstanding shares	128.2	128.3
Effect of dilutive securities		
Stock options	—	1.2
Performance shares	—	0.2
Diluted weighted average outstanding shares	128.2	129.7
(Loss) Earnings per share:		
Basic	\$(1.84)	\$1.67
Diluted	\$(1.84)	\$1.65

For the three months ended December 31, 2017, 2.8 million potential common shares related to share-based compensation awards were excluded from the diluted EPS calculation because we recorded a net loss from continuing operations. Of these shares, 1.9 million would have been included in the calculation had we recorded net income from continuing operations in the first quarter of fiscal 2018. For the three months ended December 31, 2016, 1.0 million shares related to share-based compensation awards were excluded from the diluted EPS calculation because they were antidilutive.

Non-Cash Investing and Financing Activities

Capital expenditures of \$13.0 million and \$12.9 million were accrued within accounts payable and other current liabilities at December 31, 2017 and 2016, respectively. At December 31, 2017 and 2016, there were \$17.8 million and \$4.5 million, respectively, of outstanding common stock share repurchases recorded in accounts payable that did not settle until the next fiscal quarter. These non-cash investing and financing activities have been excluded from cash used for capital expenditures and treasury stock purchases in the Condensed Consolidated Statement of Cash Flows.

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ROCKWELL AUTOMATION, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

1. Basis of Presentation and Accounting Policies (continued)

Recent Accounting Pronouncements

In March 2017, the FASB issued a new standard regarding the presentation of net periodic pension and postretirement benefit costs. This standard requires the service cost component to be reported in the income statement in the same line item as other compensation costs arising from services rendered by the related employees during the period. The other components of net periodic benefit cost are required to be presented separately from the service cost component in either a separate line item or within another appropriate line item with disclosure of where those costs are recorded. This standard also requires that only the service cost component is eligible for capitalization, when applicable. This standard is effective for us for reporting periods starting October 1, 2018. We are currently evaluating the impact the adoption of this standard will have on our consolidated financial statements and related disclosures.

In February 2016, the FASB issued a new standard on accounting for leases that requires lessees to recognize right-of-use assets and lease liabilities for most leases, among other changes to existing lease accounting guidance. The new standard also requires additional qualitative and quantitative disclosures about leasing activities. This standard is effective for us for reporting periods beginning October 1, 2019. We are currently evaluating the impact the adoption of this standard will have on our consolidated financial statements and related disclosures.

In May 2014, the FASB issued a new standard on revenue recognition related to contracts with customers. This standard supersedes nearly all existing revenue recognition guidance and involves a five-step principles-based approach to recognizing revenue. The underlying principle is to recognize revenue when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. The new standard will also require additional qualitative and quantitative disclosures about contracts with customers, significant judgments made in applying the revenue guidance, and assets recognized from the costs to obtain or fulfill a contract. We will adopt this new standard under the modified retrospective method in the first quarter of fiscal 2019, with the cumulative effect of initially applying the guidance recognized in retained earnings at the adoption date.

We have established a project plan and a cross-functional implementation team to adopt the new revenue standard. We are in the process of identifying and implementing necessary changes to accounting policies, processes, controls and systems to enable compliance with this new standard. We continue to evaluate the impact the adoption of this standard will have on our consolidated financial statements and related disclosures. Although we do not expect the effect of changes to our accounting for revenue and contract costs to be significant, we do expect the impacts will include changes to the timing of revenue currently recognized under the completed contract method, changes to the timing of revenue from software licenses bundled with services, and the capitalization of certain contract costs. We do expect an increase in qualitative and quantitative disclosures about contracts with customers, significant judgments made in applying the revenue guidance, and assets recognized from the costs to obtain or fulfill a contract. We also expect changes to our processes, controls and systems to enable compliance with this new standard.

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ROCKWELL AUTOMATION, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

2. Share-Based Compensation

We recognized \$8.6 million and \$10.7 million of pre-tax share-based compensation expense during the three months ended December 31, 2017, and December 31, 2016, respectively. Our annual grant of share-based compensation takes place during the first quarter of each fiscal year. The number of shares granted to employees and non-employee directors and the weighted average fair value per share during the periods presented were (in thousands, except per share amounts):

	Three Months Ended December			
	31, 2017		2016	
	Grants	Wtd. Avg. Share Fair Value	Grants	Wtd. Avg. Share Fair Value
Stock options	837	\$ 35.54	943	\$ 25.27
Performance shares	40	219.04	42	174.37
Restricted stock and restricted stock units	31	192.70	41	135.17
Unrestricted stock	5	180.70	6	120.57

3. Inventories

Inventories consist of (in millions):

	December 31, 2017	September 30, 2017
Finished goods	\$ 235.3	\$ 218.7
Work in process	178.7	168.0
Raw materials	156.8	172.0
Inventories	\$ 570.8	\$ 558.7

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ROCKWELL AUTOMATION, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

4. Goodwill and Other Intangible Assets

Changes in the carrying amount of goodwill for the three months ended December 31, 2017, are (in millions):